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ANNUAL REPORT TO CONGRESS ON THE NEW INDEPENDENT STATES
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[FRONT MATTER]

U.S. Assistance and Related Programs for the
New Independent States of the Former Soviet Union
1994 Annual Report

Released by the Office of Ambassador Thomas W. Simons, Jr.
Coordinator of U.S. Assistance to the New Independent States
January 1995

Submitted pursuant to Section 104 of the FREEDOM Support Act
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[TEXT]

I. INTRODUCTION

For two generations the Soviet Union was a threat to the United States. Its nuclear and conventional weapons threatened our physical survival and that of our allies and friends around the world. Its policies threatened vital national interests. Its ideology, and the means the Soviets used to promote it, threatened our most basic and cherished values. To meet that threat, we fought the Cold War. We mobilized and expended vast resources-- economic, military, and moral--to counter the Soviet challenge. And we were successful. We preserved our liberties, we preserved our capacity to grow in freedom, and we maintained the strength to embark on great new national endeavors once the Soviet Union had collapsed and the Cold War ended.

Among these endeavors is our national effort to help and encourage the New Independent States (NIS) of the former Soviet Union to transform themselves into partners in the international community. Fitfully, painfully and in dispersed order, one after another of these emerging new nations has chosen the historic path from dictatorship to democratic governance; from state-owned, and state-run command systems to market economies where individuals make their own economic decisions; and from over-militarized, arbitrary foreign and national security policy-makers to reliable partners in expanding structures of international peace.

Neither the United States alone nor any combination of outside actors will determine the success or failure of these transformations. This will depend on the will and capacity of the peoples and governments of each New Independent State. It is they who must bear the pain and run the risks. But whether they succeed or fail makes a difference to the United States. It is the difference between continuing mobilization to meet threats from this region--in other words, continuing the Cold War--and a new American capacity to meet challenges at home and abroad in the 21st Century. It is also the difference between lagging behind and taking the lead in developing new commercial relationships that will benefit U.S. companies and U.S. workers. We owe it to ourselves to do what we sensibly can, within our limited resources, to help make their transformation a success.

This is what the NIS assistance program has sought to do--to make a critical difference at a crucial moment in a historic transition that is in our national interest. Though it has had its problems, it has also had important successes. These successes are accumulating. 1994 was on balance a good year.

Assistance Strategies

Assistance is a vital component of U.S. policy toward the NIS. We want to achieve enduring, normal, and productive bilateral relations with each New Independent State and to

encourage such relations among them and between them and their partners in the world community. The United States supports each country's emergence as an independent, democratic, and prosperous nation. We also believe that over the long term, stability and prosperity--and hence independence--require broad and enduring progress toward democracy and market-based economic management. Over that long term, each is essential to the other. Our assistance program is therefore geared to support democratic and market reform and reformers. In the four nuclear successor states of the former Soviet Union, we also have a significant program of weapons dismantlement, destruction and non-proliferation.

As called for by Section 102 of the FREEDOM Support Act, an Assistance and Economic Cooperation Strategy for all 12 New Independent States was prepared in January 1994. The Office of the Coordinator of U.S. Assistance to the NIS, working with the broader assistance community, has also prepared specific country--and in the case of Central Asia, regional--assistance and cooperation strategies. The final two country strategies--for Belarus and Georgia--are now in preparation. In addition, the Russian strategy underwent a formal review mandated by the Coordinator and an update is nearing completion.

By strategic design, NIS assistance is a high-impact program for the decade of the 1990s. With a limited investment of time and assistance on our part, many of our assistance and cooperation partners are capable of becoming full, democratic, prosperous members of the international community in the short or medium terms. They will choose their own forms of democracy and the market, and the transition will not to be complete for decades. But reform and reformers can make it irreversible within years. Working closely with other donor countries and multilateral organizations, our job is to help these reformers.

Given differences in the level of development and pace of reform among the NIS, our strategy envisages three distinct types of assistance, delivered in the expectation that as reform proceeds most or all will no longer need substantial assistance by the end of the decade.

In the first phase, the accent is on humanitarian aid--food, fuel, and medicine to cushion the initial shock of beginning transition. In 1992 and 1993, most of our resources went to this type of assistance, both through government-to-government programs and through private voluntary organizations. Millions were fed; more millions were kept warm; millions were vaccinated and provided with other essential medical services. As economies stabilize, humanitarian aid becomes less necessary. In several states--Tajikistan, Armenia, Azerbaijan and Georgia, for example--it remains essential.

In the second phase, countries that choose reform--and demonstrate their political commitment to pursue democracy and market-based economic management in practice--can expect substantial bilateral technical assistance and modest capital to help them build the institutions, laws, and

regulations of modern democratic societies and modern economies. Here our partners number in the thousands rather than the millions; but they are the reformers and decisionmakers who make the policies and provide the examples for the millions. Iowa farmers take their know-how to Ukrainian farmers, Uzbek students study in Kansas, Peace Corps Volunteers from Michigan teach English in Moldova, financial sector advisors work with colleagues in half a dozen NIS ministries, retired American executives share their expertise in the Kyrgyz Republic. In 1994, the program continued to target disproportionate resources on those NIS that had chosen reform in 1992-1993--Russia, the Kyrgyz Republic, Moldova and Kazakhstan. But it also geared up to increase resources for the "second wave" of states in the process of choosing comprehensive reform after two years of delay and decay--Ukraine, Armenia, Georgia, Belarus--and thereby permit the United States to lead international support efforts on their behalf.

In the third phase, as economic stability takes hold and economic vitality grows under market conditions, there is extra U.S. Government support for the private-sector engagement in the trade and investment that must supersede assistance and provide the foundation for normal economic relations. Using funds from both the FREEDOM Support Act and their own appropriations, OPIC, TDA and the Export-Import Bank are responding to project proposals from firms, and demands for their services--and for the modest capital available through enterprise and private venture funds--thereby reflecting progress and encouraging private sector development and the growth of a market environment. In 1994, Russian-American ventures were the primary beneficiaries, given the continuing progress of reform in Russia, but Kazakhstan, Ukraine and others should receive increased support as reform in those countries proceeds.

Because the program is transitional by design, the strategy includes firm plans to end most assistance by the end of the decade. For example, the Russian program identifies 1998 as the last year for new obligations. By the dawn of the new century, therefore, private sector trade and investment should be the normal basis for U.S. economic relations with all or most New Independent States.

The Four Components of the NIS Assistance Program

The overall assistance program is composed of four distinct components: technical and economic assistance funded by the FREEDOM Support Act, dismantlement and demilitarization assistance funded by the Cooperative Threat Reduction Program ("Nunn-Lugar" Program), food assistance funded by the U.S. Department of Agriculture, and humanitarian assistance provided by private and U.S. Government sources. In varying combinations (excluding "Nunn-Lugar" resources), these programs also provide the U.S. contribution to IMF/IBRD-led stabilization efforts in newly-reforming NIS. Through FY1994, total cumulative (since the initial appropriations to these programs in FY1992) appropriations for the FREEDOM Support Act and Cooperative Threat Reduction assistance programs totaled \$4.48 billion, total cumulative obligations for all programs (including food and

humanitarian assistance, which fall outside the assistance appropriations process) totaled \$6.55 billion, and total cumulative expenditures totaled \$4.68 billion. Appropriations, obligations and expenditures for each of the four components of the assistance program through the end of December 1994 are as follows:

	Appropriated	Obligated	Expended
FREEDOM Support Act -funded assistance projects	\$3.21 billion	\$2.5 billion	\$1.1 billion
Cooperative Threat Reduction Program	\$1.27 billion	\$473 million	\$100 million
USDA Food Assistance		\$2.42 billion	\$2.32 billion
Humanitarian Assistance*		\$1.16 billion	\$1.16 billion
TOTALS	\$4.48 billion	\$6.55 billion	\$4.68 billion

* Public and private donations transported by the U.S. Government.

Of the \$4.68 billion of expenditures in the overall assistance program, the Russian Federation has received \$2.28 billion, or somewhat less than one-half of the total cumulative expenditures in the NIS (the Russian share of assistance funded only under the FREEDOM Support Act is also less than one-half of the total expenditures in the NIS). Armenia has received the second largest amount of assistance from the United States--over \$444 million--and by far the most assistance per capita; but the bulk of this assistance has been in the form of humanitarian and food assistance. Ukraine, which has only recently begun to implement a serious economic reform program, has received the third largest amount of overall assistance, \$392 million, but has received the second largest amount of technical and economic restructuring assistance.

For FY1995, Congress appropriated \$850 million under the FREEDOM Support Act and \$400 million under the Cooperative Threat Reduction Program. (FY1995 funding for USDA food assistance and humanitarian assistance has not been finally determined.) In FY1994, the Russian Federation was allocated approximately 65 percent of new FREEDOM Support Act funding, but is slated to receive only approximately 45 percent of the FY1995 assistance funds allocated under the FREEDOM Support Act.

The Cooperative Threat Reduction Program, initiated in FY1992, was established to decrease the threat of weapons of mass destruction by assisting the former Soviet republics in the following areas: safe and secure transportation, storage and nonproliferation. The program operates in the four nuclear states of the former Soviet Union--Russia, Ukraine, Belarus and Kazakhstan. U.S. negotiators initially encountered numerous difficulties and delays as they sought agreements on specific weapons dismantlement and destruction projects. After a slow start, in FY1993 and FY1994 over 30 agreements were signed and implementation of these agreements began in earnest. Obligations through December

1994 increased four-fold over the previous year to \$473 million and continues to increase rapidly. Congress has been notified of proposed obligations for an additional \$535 million to implement these agreements, for a total of \$969 million.

Significant Developments in the 1994 Program

Across the length and breadth of the eleven NIS time zones, 1994 was the year when the \$2.5 billion in new multi-year funding provided by the Congress in September, 1993, began to roll out and demonstrate serious impact in support of reform. The accent was on technical assistance, the offer of the best of American know-how and expertise in field after field to reformers willing and able to use it. Thousands of NIS citizens at every level of education and in a score of fields came to this country; thousands of knowledgeable Americans in scores of organizations arrived to share their expertise with area counterparts. In sector after sector--privatization and post-privatization support, economic restructuring, energy, the environment, health, small business development--new laws, new regulations, new institutions, new ways of doing things emerged and began to take root in country after country, at the central and local levels. The bulk of this report is a record of some of these achievements--and some of the problems encountered along the way, but a number of significant developments deserve highlighting in this introduction:

Following President Kuchma's bold decision this fall to undertake a comprehensive economic reform program, we mounted a broad and substantial assistance program in Ukraine.

Ukraine also provided the first major test of the program's capacity to support macro-economic stabilization and micro-economic restructuring programs agreed between newly reforming NIS, the International Monetary Fund, and the International Bank for Reconstruction and Development; with our active engagement, it was successful.

As the progress of reform increased the demand for direct support of U.S. trade and investment, we enhanced the emphasis on this aspect of the program, while maintaining our stress on core technical assistance to help create the conditions required for the healthy functioning of a market economy. For example, OPIC provided over \$700 million in financing for projects in the NIS in 1994.

As reform progressed in Russia and the other NIS embarked on the reform path, the proportion of assistance targeted at Russia and non-Russian NIS shifted toward the latter, up from 35 percent in FY1994 to over 55 percent in FY1995.

Coordination with other donors to maximize synergy and minimize redundancy made significant progress, in international donor's fora and in bilateral consultations, particularly with the European Union; the establishment in Moscow of an assistance unit attached to the Ambassador's Office improved issue management of the region's largest program.

Training and exchange programs exploded, toward Marshall Plan proportions, and began to put in place the solid underpinning in human experience and contact that sound future U.S.-NIS relations will require. In all, almost 12,000 people from the NIS participated in training and exchange programs in 1994.

Structure of the 1994 Annual Report

The 1994 Annual Report on the U.S. assistance program in the NIS is divided into eleven sections, with one appendix containing figures for obligations, expenditures, and commercial financing and insurance. Information used in this report was gathered from Washington agencies involved in the assistance program, the U.S. Embassy in each of the twelve NIS states, and assistance providers in the field. The Annual Report was prepared by the Office of Ambassador Thomas W. Simons, Jr., Coordinator of U.S. Assistance to the NIS.

II. Assessment of Effectiveness and Overview of U.S. Assistance in the NIS

The following assessments and overviews provide a snapshot of the U.S. assistance program in each New Independent State in 1994. These assessments are based on information provided by our Embassies and other field-based assistance providers, as well as the U.S.-based representatives of various government and non-governmental agencies involved in the NIS assistance program. They contain information on the climate for economic and political reform in each state, specific strategic objectives, budgetary outlays and program problems. For complete information on specific assistance programs, please refer to those particular sections of this Annual Report.

Overall, the U.S. assistance program in 1994 made a significant contribution to the reform process. Stronger commitment to reform in a number of states--most notably Ukraine, Moldova and Armenia--as well as the continuing economic reform in Russia provide clear evidence of progress. Moreover, we achieved greater focus in our programs, ensuring that the assistance we provide is the assistance that is required and desired. A number of projects--such as the grain storage facility project--have been eliminated completely or significantly altered in light of our strategic objectives. In Russia, we have also instituted a regional assistance strategy that helps us better concentrate our efforts on those regions in Russia most likely to use our assistance productively and we have established an assistance unit in Embassy Moscow to better coordinate the numerous assistance activities underway in that country.

For the most part, programs underway are helping achieve the primary U.S. strategic goal --to establish enduring, normal and productive bilateral relations with each New Independent State and to encourage such relations among them and between them and their partners in the world community. We have also contributed to the emergence of each country as an

independent, democratic and prosperous state--which must be seen as a long term process. The U.S. assistance strategy for the NIS has three primary objectives:

Foster the development of a competitive, market-oriented economy in which the majority of resources are privately owned and managed.

Support the transition to transparent and accountable governance and the empowerment of citizens, working through their civic and economic organizations and democratic political processes that ensure broad-based participation in political and economic life, and respect for human rights and fundamental freedoms.

Strengthen the capacity of these states to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period.

In response to the changing conditions in some NIS states, the focus of the U.S. assistance program has also moved significantly away from humanitarian assistance and into economic and technical assistance--and in Russia to a program which features strong support for U.S. trade and investment as well.

The assistance program, however, continues to struggle with a variety of different problems, ranging from difficulties with the actual provision of assistance to problems in determining the proper course of action. A number of Embassies have expressed concerns that their expertise and authority have not been adequately sought or taken into account in the development of assistance projects. Occasionally, specific assistance programs run into problems because of the lack of experience or knowledge of the assistance providers in the field, and sometimes because of the demands of program developers and designers in Washington. A common criticism has been the lack of follow-up assistance--we provide advice or training, only to leave the scene before gauging what the next steps should be and how to implement those next steps. We are continually striving to address these problems as they appear.

In recognition of the well-publicized problems with crime and corruption in countries throughout the NIS, our programs have also been designed to minimize these risks. For example, assistance is provided through contracts with U.S. firms and organizations to deliver technical assistance rather than through grants to NIS governments. Indeed, relatively little assistance is directed at government at all. The Inspectors General of agencies and departments delivering assistance are taking extra efforts to ensure that they are exercising their audit responsibilities in a manner appropriate for these types of activities.

Armenia

The U.S. assistance program in Armenia in 1994 continued to help provide essential support for the Armenian people during the continuing tough period of embargo and

transition, with increasing emphasis on assisting the development of legal and institutional structures to facilitate the growth of its democratic government and a market economy. The Armenian Government has taken some of the steps necessary to move forward with essential reforms, including the privatization of most of the country's arable land. With the establishment of a tentative cease-fire in Nagorno-Karabakh and the first signs of economic stability, the reform climate in Armenia has shown signs of improvement. Finally, Armenia has moved boldly and courageously toward agreements with the IMF and IBRD that will permit comprehensive reform to go forward for the first time.

U.S. technical assistance in the near term will focus on helping Armenia to get key elements of the legal and institutional framework in place. Initial efforts are strengthening the knowledge of and tools available to policy-makers who play key roles in the stabilization and restructuring process. These efforts will complement those of the World Bank, the IMF, and--given the likely lag before those institutions become fully engaged in Armenia--will provide assistance in selected areas slated for later multilateral support. Our efforts will build on economic reform objectives set by the government and the progress they have already achieved. Our assistance program in Armenia can be divided into these general categories:

Activities to provide food, medicine, and fuel assistance.

Activities that support macroeconomic stabilization and economic restructuring.

Activities aimed at creating the legal framework needed for a functioning market economy.

Activities aimed at strengthening civil society and participatory democracy.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$124 million in technical assistance, \$266 million in food assistance, and \$104 million in humanitarian assistance. Over \$444 million of assistance had been expended as of this date. In FY1994 alone, the U.S. budgeted \$83 million for technical and humanitarian assistance to Armenia. (See Appendix 1 for a complete description of obligations and expenditures.)

Foremost among the various elements of U.S. assistance is the impact of the substantial grants of food grains and heating fuels provided to Armenia this year, including 230,000 tons of wheat and 50,000 tons of kerosene, transport of heavy fuel oil, donated medicines and surplus agricultural commodities. The President, Prime Minister and most levels of Armenian society repeatedly thank the United States for the life-sustaining function of this food and fuel assistance and the underpinning it provides to the government's reform program and the country's economic stability and political independence. Other key U.S. initiatives in Armenia include support for energy, housing, training and exchanges programs, and economic restructuring

programs.

While the overall positive impact of U.S. assistance to Armenia this year has overshadowed most shortcomings, several continuing problems have limited the degree of success and cost-effectiveness. In particular, the lack of early, comprehensive action on the deteriorating, ill-managed transportation system in the region continues to haunt U.S. assistance efforts. According to our Embassy, the delivery of urgently-requested assistance for energy system improvements and economic advice and data processing was time consuming and long-delayed by USAID's process requirements and centralized contract authorities. The Embassy also reports that handling the large number of requests for information from Washington adds significantly to the workload of the small field staff.

The U.S. plans to continue supporting Armenia's economic and political reform program in FY1995. Despite significant cuts in the overall NIS assistance budget, FY1995 funding for Armenia as a percentage of the overall NIS budget is slated to rise, and we will be challenged to lead the international community's efforts to support comprehensive Armenian reform in the context of emerging IMF/IBRD programs. U.S. assistance will primarily go to support humanitarian and food needs, with significant resources also directed at promoting exchanges and training, economic restructuring, private sector development and housing.

Azerbaijan

The U.S. assistance program in Azerbaijan--limited by U.S. legal restrictions--has played an important role in providing humanitarian assistance to refugees and internally-displaced persons, and encouraging the country's transition to a market economy and democracy. U.S. Government assistance to the Government of Azerbaijan is prohibited by Section 907 of the FREEDOM Support Act until Azerbaijan takes steps to cease offensive uses of force and lift embargoes against Armenia. As a result, all U.S. assistance is directed at individuals and organizations not associated with the Government of Azerbaijan.

Although Section 907 of the FREEDOM Support Act prohibits bilateral government-to-government assistance of the type available to the other NIS, our strategic objectives in Azerbaijan are the nonetheless the same as those of the other states. Our necessarily limited assistance program in Azerbaijan can be divided into these general categories:

Emergency aid to refugees and displaced persons.

Educational and entrepreneurial training and exchange programs.

Democracy-building projects.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$30 million in technical assistance, \$30 million in food assistance, and \$20 million in humanitarian assistance. Over \$60 million of assistance had been expended

as of this date. In FY1994 alone, the U.S. budgeted \$12 million for technical and humanitarian assistance to Azerbaijan. (See Appendix 1 for a complete description of obligations and expenditures.)

The bulk of U.S. assistance to Azerbaijan has focused on addressing immediate humanitarian needs by providing food, medicines and shelter to the neediest segments of the Azerbaijani population. A few other assistance projects, however, were carried out in 1994, including:

A USAID-funded training and exchange program which brought representatives of private sector Azerbaijani groups to the United States for training.

The USIA Secondary School Exchange Program, which brought a group of 15-17 year-old students to the United States to live and study in 1994.

The U.S. plans to continue to do what it can to support and encourage economic and political reform in Azerbaijan in FY1995. U.S. assistance will primarily go to support training and exchange programs, private sector rural development, and food aid.

Belarus

The small amount of U.S. assistance extended to Belarus in 1994 was on the whole effectively utilized to encourage the beginning of reform in Belarus. U.S. assistance to Belarus focuses on encouraging the country's transition to a market economy and democracy. In addition, through the Cooperative Threat Reduction program, the U.S. seeks to assist the Belarus Government in fulfilling its commitment to denuclearization and nonproliferation, including through facilitating the conversion of Belarus defense industries. The election of President Aleksandr Lukashenko in July 1994 may signal a new spirit of reform on the part of the Belarus Government, but the lack of prior Belarusian Government action thus far on economic reform has limited extensive U.S. engagement in this sector. If Belarus reaches agreements with the IMF and IBRD, thereby joining the "second wave" of newly reforming NIS that demonstrate strong and practical commitment to reform, U.S. leadership will be important to international community efforts to support these efforts.

The focus of our program in Belarus mirrors that of other NIS:

Activities to foster the development of a competitive, market-oriented economy in which the majority of resources are privately owned and managed.

Activities to promote democratic institution-building.

Activities designed to help sustain the neediest sectors of the population during the transition period.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$36 million in technical assistance,

\$195 million in food assistance, \$62 million in humanitarian assistance, and \$23 million for the Cooperative Threat Reduction program. Over \$268 million of assistance had been expended as of this date. In FY1994 alone, the U.S. budgeted \$12 million for technical assistance to Belarus. (See Appendix 1 for a complete description of obligations and expenditures.)

U.S. initiatives in Belarus include support for programs in energy, the environment, privatization, training and exchanges, and private rural sector development, and a large food assistance program. The U.S. Embassy reports that humanitarian medical assistance and technical assistance directed at supporting municipal authorities have been highly successful. Other aspects of the programs are:

Projects to strengthen professional legal associations and to support efforts to create legal continuing education programs.

Efforts to support the development of indigenous non-governmental organizations (NGOs).

Farmer-to-Farmer exchange programs and other agricultural technical assistance.

The establishment of a system of privatization auctions and support for the development of advertising and public education strategies.

Continuing support for a hospital partnership program between the Children's Hospital of Pittsburgh and three medical facilities in Minsk.

Despite the overall positive assessment of the U.S. assistance program in Belarus, we have experienced a few problems. For example, the Embassy reports that some USAID projects have moved forward without receiving proper concurrence from the Ambassador. The Embassy also has raised concerns about delays in the implementation the Cooperative Threat Reduction program in Belarus--the largest source of assistance available now to Belarus. According to one Embassy report, "seemingly endless delegations have bewildered and strained the resources of both the Embassy and the Belarusian Ministry of Defense leading the Minister of Defense to publicly criticize the program." U.S. Department of Defense officials are addressing these concerns directly with the Minister of Defense.

The U.S. plans to support and encourage economic and political reform in Belarus in FY1995. U.S. assistance will primarily go to support training and exchanges, with significant resources also directed at environmental and energy programs, and health care. The U.S. also plans to provide up to \$10 million in food commodities in 1995. Should the Belarusian Government move forward with a significant reform program, we would consider expanding the program to include support for economic restructuring and privatization.

Georgia

U.S. assistance to Georgia was crucial to the economic, social and political survival of Georgia in 1994. Our assistance program has focused on assisting Georgia's transition to a market economy and democracy, and to helping the country maintain a safety net for its vulnerable population. Our initiatives have also contributed to increased efforts in Georgia by other international donors. Together, U.S. assistance and our urging that other donors increase contributions have demonstrated support at a time when its leaders faced a discouraging array of problems in their efforts to build a viable nation. Despite a wide range of serious domestic political, military and social problems, the Georgian Government has taken some of the steps necessary to move forward with a sound reform program, including the privatization of much of the country's arable land, and is working intensively with the IMF and IBRD to reach agreements that will put deep, comprehensive reform on track. With the freeing of the price of bread and fuel and the first signs of economic stability, the reform climate in Georgia has shown signs of improvement.

The focus of our program in Georgia mirrors those of other NIS:

Activities to provide food, medicine, and fuel assistance.

Activities that support macroeconomic stabilization and economic restructuring.

Activities aimed at creating the legal framework needed for a functioning market economy.

Activities aimed at strengthening civil society and participatory democracy.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$60 million in technical assistance, \$227 million in food assistance and \$143 million in humanitarian assistance. Over \$367 million of assistance had been expended as of this date. In FY1994 alone, the U.S. budgeted \$35 million for technical and humanitarian assistance to Georgia. (See Appendix 1 for a complete description of obligations and expenditures.)

Major U.S. initiatives in Georgia include support for energy, training and exchanges, democratic reform and economic restructuring, and a large humanitarian food, fuel and medicine assistance program (see the humanitarian assistance section of the Annual Report for more detail). Specific projects include:

Efforts to improve energy efficiency through weatherization of factories and apartments and installation of dedicated power lines to ensure service to critical facilities such as hospitals and bakeries.

Election training and voter education.

Support for a medical partnership between Grady Memorial Hospital (Emory University) and the Morehouse School of

Medicine and two medical facilities in Tbilisi.

Support for several short-term and one long-term economic advisor for the Georgian Government.

Training and exchange programs to benefit parliamentarians, other government officials and students.

The United States plans to continue supporting Georgia's economic and political reform program in FY1995. Despite significant cuts in the overall NIS assistance budget, FY1995 funding for Georgia as a percentage of the overall NIS budget is projected at this point to double, and if Georgia negotiates IMF/IBRD programs that embody comprehensive reform, the U.S. will play a key role in leading international efforts to support them. U.S. assistance will go primarily to help meet humanitarian and food needs, with significant resources also directed at promoting exchanges and training, economic restructuring, health, and energy.

Kazakhstan

The U.S. assistance program in Kazakhstan began achieving more concrete results in 1994 as many programs moved from the planning or pilot stage to full, country-wide implementation. Our assistance program is designed to help create the conditions for sustained economic restructuring and democratic development. In addition, through the Cooperative Threat Reduction program, the United States seeks to assist the Kazakhstani Government to dismantle and eliminate weapons of mass destruction located on its territory and to facilitate the demilitarization of Kazakhstan. This assistance has played a role in helping Kazakhstan to undertake and implement its exemplary denuclearization commitments. A major success in this area was the transfer of 600 kg of highly enriched uranium from Kazakhstan to safe storage in the United States in November 1994.

During President Nazarbayev's visit to Washington in February 1994, President Clinton pledged to provide additional humanitarian and technical assistance, commercial agricultural credit guarantees, assistance for the safe dismantlement of nuclear weapons, and U.S. investment resources valued at about \$311 million.

Our assistance program in Kazakhstan can be divided into these general categories:

Activities to promote private enterprise growth and to facilitate defense diversification.

Activities to support the development of constitutional and legal frameworks that provide the basis for a democratic society operating under the rule of law.

Activities to reform health care finance and health service delivery.

As of December 31, 1994, the U.S. Government had obligated a

cumulative total of \$147 million in technical assistance and \$34 million in food assistance, \$81 million in humanitarian assistance, and \$5 million for the Cooperative Threat Reduction program. Over \$184 million of assistance had been expended as of this date. In FY94 alone, the U.S. budgeted \$127 million for assistance to Kazakhstan--including part of the initial \$30 million tranche for the Central Asian-American Enterprise Fund. (See Appendix 1 for a complete description of obligations and expenditures.)

Major U.S. initiatives in Kazakhstan include support for privatization, economic restructuring, training and exchanges, and the first stage of a regional program to address health and environmental problems related to the desiccation of the Aral Sea. Specific projects include:

Economic advisors who supported efforts to draft a new tax code and the budget, and helped introduce government securities.

Support for the establishment of the Kazakhstani Securities Commission, stock exchange, and other capital market development projects.

Election assistance and training directed at the judicial and legislative branches.

Training and exchange programs that focused on parliamentarians, other government officials and entrepreneurs.

Student exchange programs.

The assistance program, however, has run into a few problems. For example, the accelerated pace in implementation of privatization and other economic restructuring initiatives has been matched, if not outpaced, by the spread of corruption and organized crime. According to our Embassy, without a complementary legal and regulatory framework, privatization is likely to reinforce the worst consequences of an uneven playing field. The Embassy suggests that we focus more on helping the government move more rapidly to establish comprehensive commercial and civil laws as well as openness and transparency in its activities.

Corruption and implementation difficulties are also key factors--in Kazakhstan and across the NIS--that must be taken into account in our assistance program. U.S. assistance funds are provided through assistance implementors, grantees and NGOs--not through NIS government structures--so as to minimize the potential for diversion. Nevertheless, endemic corruption can undermine efforts to move toward political transparency and effective markets. Assistance cannot solve the corruption problem, but we are taking steps to help in the development of a clear, comprehensible and equitable environment, especially in terms of defining what constitutes legal economic activity. Problems in implementing programs are compounded by the distances and breakdown in transport and communication links within the region--for example, what once was a two-hour flight between two Central Asian capitals has become a 24

hour expedition involving several different modes of transport.

The United States plans to continue supporting Kazakhstan's economic and political reform program in FY1995. Despite the sharp cuts in the FY1995 NIS assistance budget, as a percentage of the overall budget, the U.S. has budgeted slightly more for technical assistance programs in Kazakhstan in FY1995 than in FY1994. U.S. assistance is targeted on support for the government's privatization and economic restructuring programs, as well as additional funding for the Aral Sea project. Newly privatized enterprises in Kazakhstan will likely be prime recipients of loans and equity investments from the Central Asian-American Enterprise Fund.

Kyrgyz Republic

The U.S. assistance program in the Kyrgyz Republic in 1994 has in general been effective. In particular, the food aid, transfers of medicine, and privatization efforts have either addressed critical needs or spurred the Kyrgyz Government to quicken the pace of economic reform. In 1994, the Kyrgyz Government had taken many of the steps necessary to move forward with a sound economic reform program--evidenced by the support expressed by the international donor community at the June 1994 World Bank Consultative Group meeting. The Kyrgyz Government's leading role in the region in its commitment to democracy and the rule of law, however, was still open to some question in 1994 and remains a cause for concern. Recent political developments--such as the shutting down of two anti-government newspapers and a presidential-engineered parliamentary boycott--may lead to reduced U.S. support for some assistance projects, and the consequences for our program and the policy it serves could be significant if a cessation or significant curbing of democratic and economic reform becomes widespread.

Our assistance program in the Kyrgyz Republic can be divided into these general categories:

Activities to support the development of a competitive, market-oriented economy.

Activities to support the transition to transparent and accountable governance and respect for human rights and fundamental freedoms.

Activities to provide humanitarian food assistance to vulnerable segments of the population.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$62 million in technical assistance, \$143 million in food assistance and \$50 million in humanitarian assistance. Over \$202 million of assistance had been expended as of this date. In FY1994 alone, the U.S. budgeted \$57 million for technical assistance to the Kyrgyz Republic--including \$7 million which was awarded on the basis of performance. (See Appendix 1 for a complete description of obligations and expenditures.)

Major U.S. initiatives in the Kyrgyz Republic include support for the government's privatization and economic restructuring programs, as well as projects in the energy sector and projects in support of democratic reform. These projects include:

A highly successful health partnership between the Kansas State University Medical Center and the Kyrgyz Ministry of Health.

A focused Farmer-to-Farmer program which has brought U.S. experts with concrete agricultural experience to help Kyrgyz farmers.

Technical assistance to create new energy sector laws and regulations, help privatize utilities, and to improve the infrastructure of district heating and power transmission systems.

Long-term advisors to assist the Central Bank and the State Committee on Economics.

Peace Corps programs to teach English.

Educational exchange programs.

Despite successes, the U.S. assistance program in the Kyrgyz Republic has had its share of problems. The Embassy recommends that more attention be given to the rule of law and the training of the next generation, i.e., training at the university level and not training at the working level (existing training programs appear to have had little impact on recipients in terms of how they do their jobs). The Embassy also favors a better mix and a better regional distribution of programs that provide immediate visible benefits to the population and long-term technical assistance programs. The absence of a permanent USAID representative in Bishkek that can coordinate the various independent programs has been a problem, but just such an individual is expected in January 1995.

The United States intends to continue supporting the Kyrgyz Republic's economic and political reform efforts in FY1995--provided the Kyrgyz Government continues its support for economic and democratic reform. Despite the sharp cuts in the FY1995 NIS assistance budget, the U.S. plans to spend slightly more--as a percentage of the overall budget--for technical assistance programs in the Kyrgyz Republic in FY1995 than it did in FY1994. U.S. assistance in FY1995 is targeted on continued support for privatization and economic restructuring, as well as programs in health sector reform and training and exchanges. Moreover, newly privatized enterprises in the Kyrgyz Republic will likely be prime recipients of loans and equity investments from the Central Asian-American Enterprise Fund.

Moldova

The U.S. assistance program in Moldova has proven critical to the pace of that country's economic and democratic reform. Supported by U.S. assistance and diplomacy, the

Moldovan Government has taken many of the steps necessary to move forward with a sound reform program, such as establishing a foreign exchange market, unifying the exchange rate, and liberalizing prices. Despite a series of natural disasters, Moldova has generally adhered to its obligations under IMF/IBRD programs, and if additional support is required in 1995 to enable it to sustain its reform commitments, it can expect a sympathetic hearing from the international community, including the United States.

Our assistance program in Moldova can be divided into these general categories:

Activities which assist in the privatization of state-owned assets and develop the institutions necessary to support a market economy.

Activities to assist the Moldovan Government to incorporate the concept of rule of law into its institutional practices and improve the understanding of democratic institutions and practices.

Activities to provide necessary food, fuel, energy supplies, and essential vaccines and pharmaceuticals.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$57 million in technical assistance, \$91 million in food assistance and \$55 million in humanitarian assistance. Over \$155 million of assistance had been expended as of this date. In FY1994 alone, the U.S. budgeted \$34 million for assistance to Moldova, including \$14 million which was awarded on the basis of performance. (See Appendix 1 for a complete description of obligations and expenditures.)

The U.S. assistance program in Moldova includes a variety of distinct projects, but support for privatization and the establishment of a market economy remain the largest component of our assistance program. High-ranking Moldovan officials have told our Embassy that without the expertise and infrastructure support provided by U.S. contractors, the Moldovan privatization process would not have gotten off the ground. Among the other forms of assistance are:

Long-term advisors who provide technical assistance to the Moldovan Government on taxation, government securities, and budget issues.

Farmer-to-Farmer exchange programs and other agricultural technical assistance.

Voter education and election monitoring projects.

Support for vaccine policy and a childhood immunization support program.

Training and exchange programs for professionals and students.

USDA food assistance, which has helped to alleviate the consequences of a severe drought.

Late in the year, Moldova suffered a disastrous flood. The U.S. responded with nearly \$450,000 in emergency assistance, and has worked with the European Union to insure that food and other basic needs will be taken care of in the coming year.

The U.S. plans to continue supporting Moldova's economic and political reform program in FY1995. Despite significant cuts in the overall NIS assistance budget, FY1995 funding for Moldova is projected to remain at 1994 levels, an indication of the strong support of the U.S. for Moldova's courageous reform efforts. In addition, we will be expected to contribute to any additional support required to help Moldova sustain its programs with the IMF and the IBRD. U.S. assistance will primarily go to support the government's privatization program, with significant resources also directed at promoting exchanges and training, economic restructuring and health care reform. In addition, the United States plans to support private enterprise development through the newly-created West NIS Regional Enterprise Fund. The United States also plans to provide up to \$12 million in food commodities in 1995.

Russia

The U.S. assistance program in Russia, the largest and most diverse in the NIS, moved into full swing during 1994. Technical assistance activities were launched or expanded in all the major project areas targeted at supporting democratic and market reforms. In some areas, such as mass privatization, activities peaked and were brought to a successful conclusion. Exchanges and training programs also grew rapidly in 1994. In addition, programs in direct support of trade and investment, including three new U.S. Government-supported enterprise funds which began operation this year, experienced a major increase in activity.

Over the past year, the U.S. assistance strategy for Russia has evolved in response to changing needs and conditions in Russia as well as changes in the resources available for the program. During the early transitional phase, humanitarian aid loomed large in our assistance program because of the pressing need for food, medicine and other essential commodities. As economic activity reduced the need for humanitarian assistance in Russia, the United States moved quickly to expand technical assistance directed at helping Russia create the laws, regulations and institutions necessary for a democracy and market economy to function. Now that elements of a market economy have begun to emerge, the United States has placed more emphasis on helping Russia spur private sector development by increasing direct support for trade and investment.

At their summit in September 1994, President Clinton and President Yeltsin reaffirmed the common interests of the United States and Russia in maintaining a cooperative relationship. President Clinton pledged that the U.S., through a broad program of partnership, would continue to assist Russia in achieving its goals of fundamental democratic and market reforms. But the two Presidents also

agreed that the United States and Russia should move as rapidly as possible beyond assistance to a normal economic relationship.

The Joint U.S.-Russian Commission headed by Vice President Gore and Prime Minister Chernomyrdin has provided an additional channel for coordinating bilateral assistance and advancing cooperative efforts on such matters as public health, energy, the environment, space, trade and investment. The regular meetings of the Commission have provided a forum to focus high-level attention on specific issues of interest and spur practical cooperation to resolve them. For example, our common undertaking with Russia and Western partners to build an international space station is a direct result of the Gore-Chernomyrdin process. One direct result is a \$400 million contract between NASA and the Russian Space Agency for goods and services related to the space station project.

A detailed list of U.S. assistance projects is provided in following sections of the Annual Report. Assistance programs in Russia fall generally into three broad categories: programs to promote market reform through expansion of private sector activity; programs to support and promote the development of democratic institutions and political processes; and programs to enhance the capacity to deliver social services in ways that are fiscally sustainable and compatible with a market economy, with particular attention to vulnerable groups. In addition to our efforts directed at economic and political reform, we also support efforts to facilitate and accelerate the destruction and dismantlement of weapons of mass destruction and to address issues of non-proliferation. Several achievements in 1994 are particularly noteworthy:

With the assistance of U.S. advisors and technical support, the Russian State Property Committee completed a mass privatization program that privatized 71,000 small state enterprises and over 16,000 medium and large state enterprises, encompassing 70 percent of Russian industry and 40 percent of the work force. Over 40 million Russians received shares in the privatized enterprises, giving them a direct stake in the success of Russia's emerging market economy.

U.S. supported pilot projects on housing reform stimulated a wave of privatization of housing units. Over 30 percent of Russian households now occupy homes they own themselves.

Approximately 10,000 Russian high school and university students, teachers, entrepreneurs, business managers, public administrators, lawyers, journalists and other provisions participated in training and exchanges programs United States, gaining new skills, insights into a democratic, market-oriented society, and opportunities for networking with counterparts both in the United States and Russia.

The rapid expansion of contacts between Russian and U.S. non-governmental organizations involving private farmers, small business entrepreneurs, independent media, new democratic political parties and charitable groups.

An upswing in activity under U.S.-supported trade and investment programs, including the first investment commitments of the Russian-American Enterprise Fund and Fund for Large Enterprises in Russia, the opening of new Commerce Department American Business Centers in seven Russian cities, the approval by OPIC of investment projects totaling almost \$700 million, and U.S. Export-Import Bank loan commitments amounting to \$1.6 billion.

The expansion of destruction and dismantlement projects under the Department of Defense Cooperative Threat Reduction program, such as providing specialized equipment for strategic offensive arms elimination and to assist in the dismantlement and destruction of ICBMs and heavy bombers.

During 1994, Russia moved significantly toward the establishment of a functioning market economy and strengthened democratic institutions. Up until the invasion of Chechnya, Russia had experienced a period of relative political stability and the first measurable economic improvements since the collapse of the Soviet Union in 1991. With the mass privatization program completed, thousands of Russian enterprises began the difficult but essential process of restructuring to produce marketable goods efficiently. While macroeconomic conditions remain unstable, the government is clearly paying more attention to developing appropriate monetary and fiscal policies, and discussions with the IMF on a major new adjustment program are now underway. In the political arena, there was an evident strengthening of democratic processes. Many grassroots citizen organizations emerged and became vocal advocates of diverse causes, including human rights and environmental protection. Russians in many regions now receive their news from independent newspapers, television, and radio stations. New political parties, labor unions and advocacy groups are also being heard all across the political spectrum.

Russia's new political and economic institutions nonetheless remain fragile. And while many U.S. assistance activities have had a direct, positive impact on democratic and market reforms, it is still too early to ascertain whether the changes supported by our programs will endure over the long term.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$1.4 billion in technical assistance, \$1.2 billion in food assistance, \$475 million in humanitarian assistance, and \$291 million for the Cooperative Threat Reduction program. Over \$2.27 billion of assistance had been expended as of this date. In FY1994 alone, the U.S. budgeted \$1.6 billion for technical assistance to Russia. (See Appendix 1 for a complete description of obligations and expenditures.)

The U.S. assistance and economic cooperation strategy for Russia is part of a broader strategy that encompasses all of the New Independent States. Russia figured prominently in the early phase of U.S. assistance to the region because the need was greatest there and because Russia was in the

forefront of political and economic reform. With reform taking hold in Russia and U.S. assistance beginning to achieve its objectives, we are now in a position to start phasing down activities there and shifting even more resources to programs in other NIS. By 1998 all new assistance obligations to Russia are expected to cease.

A number of recurring issues continue to cause problems both for the U.S. assistance program and for U.S. businesses interested in projects in Russia. Among the most basic are logistics--finding office and living space at an acceptable price, obtaining phone lines, recruiting staff, and finding accurate information about how to do business. To a large extent, lack of information and poor coordination among Russian Government entities perpetuates the arbitrariness of the Soviet era. Both Russian and American business people have difficulty learning Russian government regulations which pertain to their activity. While assistance programs are by law exempt from customs duty and certain taxes, poor coordination within the Russian Government results in continuous problems in this area requiring the intervention not only of the Embassy but also all other donor nations. The problem of weak coordination is exacerbated by ambiguities and rivalries within the Russian Government, where clear lines of authority have not yet been drawn and where organizations and, at times, personalities jockey for position. The growing criminal problem has not yet caused serious problems for assistance officials or contractors, but its effect on the overall business climate is definitely negative.

The United States intends to continue supporting democratic and market reforms in Russia in FY1995 provided that there is a commitment among Russian governmental, non-governmental and private entities to make further progress. Depending on the outcome of a review now underway evaluating U.S. trade and investment programs, the coming year could bring a greater emphasis to assistance in this area. However, technical assistance programs and training and exchanges will continue to comprise the bulk of the U.S. aid budget. Aside from possible emergency needs, there are no plans for broad-based humanitarian assistance in Russia during FY1995.

Assistance from the United States and other donors is playing an important role in helping Russia grapple with key reform issues. In the end, however, the success of democratic and market reforms in Russia will depend primarily on what Russians themselves do. Effective government policy, growth of a dynamic private sector and active support of the Russian people will be key ingredients of success. In developing an assistance strategy, therefore, we have sought to focus limited U.S. resources on key areas that can contribute directly to systemic change and support reform efforts already underway within various levels of government (both central and local), the business community and non-governmental organizations.

Tajikistan

The relatively modest U.S. assistance program in Tajikistan in 1994 was effective in addressing key humanitarian needs.

At the same time, steps were initiated to begin training and technical assistance programs in Tajikistan without shifting away from the all too evident humanitarian requirement.

Our assistance program in Tajikistan can be divided into these general categories:

Activities to provide emergency food and relief supplies.

Activities to support the transition to transparent and accountable governance and respect for human rights and fundamental freedoms.

Activities to strengthen Tajikistan's capacity to help sustain the neediest sectors of the population during the transition period.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$32 million in technical assistance, \$77 million in food assistance and \$22 million in humanitarian assistance. Over \$103 million of assistance had been expended as of this date. In FY1994, the U.S. planned to spend approximately \$18 million for assistance to Tajikistan--excluding agricultural commodity programs. (See Appendix 1 for a complete description of obligations and expenditures.)

The vast majority of assistance resources were earmarked for humanitarian assistance projects--most of which were channeled through UN programs. Other assistance efforts included:

Training and exchange programs for government officials and other professionals as well as student exchanges

USDA-funded food assistance.

The establishment of a USIA American Center in Dushanbe which houses an educational and commercial library, academic advisors, and a meeting center.

A few problems with various aspects of the program have been noted. For example, the Embassy reports that the selection process for training participants initially gave too much authority to the Tajik Government and a lack of follow-up assistance severely limited the benefits gained from the training and exchange program. In particular, the Embassy cites the lack of any in-country component as a serious drawback. (USAID began a follow-on program in November 1994 to determine the degree of effectiveness of the program and to help the participants apply their training once they have returned to Tajikistan--the results of this effort are not yet available.) The Embassy also reports that the Farmer-to-Farmer program has done a great job of exposing Tajiks to new ideas and methods, but because of Tajikistan's internal problems, there are few opportunities for them to expand the lessons of this experience beyond the initial recipients.

The United States intends to continue to provide humanitarian assistance to Tajikistan as the effects of the civil war and political instability continue to burden large segments of the Tajik population. Because the Tajik

Government and opposition forces have implemented a recently negotiated cease-fire and taken some additional steps toward ending the conflict, we will expand our assistance program to include modest economic and political reform projects. USDA plans to provide an additional \$7 million in Food for Progress grant food assistance.

Turkmenistan

With some noteworthy exceptions, the low levels of U.S. assistance provided to date to Turkmenistan have had little tangible effect on either economic or political reform. The Turkmenistani Government has placed primary emphasis on stability and security with tight controls on both economic and political activity. Our assistance program is intentionally small, and will remain so unless the Turkmenistani Government decides to embark on a serious reform program, but we want to try to keep the door open to change and influence from the outside world.

Our assistance efforts can be divided into two general categories:

Activities to foster the development of a competitive, market-oriented economy in which the majority of resources are privately owned and managed.

Activities to support the transition to transparent and accountable governance and respect for human rights and fundamental freedoms.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$27 million in technical assistance, \$75 million in food assistance and \$19 million in humanitarian assistance. Over \$115 million of assistance had been expended as of this date. In FY1994, the U.S. budgeted approximately \$8 million for technical assistance to Turkmenistan--excluding agricultural commodity programs. (See Appendix 1 for a complete description of obligations and expenditures.)

Given the difficult economic and political climate, our assistance program has focused on a small number of specific projects, including:

A regional effort to address health and environmental problems related to the desiccation of the Aral Sea, the single largest assistance project in Turkmenistan.

A training and exchange program that has provided valuable training and familiarization opportunities focusing on economic and bank restructuring and health issues.

A joint U.S.-Japan childhood immunization support program.

Establishment of a medical partnership between the Cleveland Clinic and a local medical facility.

The United States, Israel and Turkey signed a Memorandum of Understanding in October to cooperate on assistance to the Turkmenistan and Uzbekistan rural and agricultural sectors

(see similar section on Uzbekistan below).

According to our Embassy, the least effective U.S. assistance programs in Turkmenistan are those which fail to follow-up on their initial overtures. Local officials have reportedly complained that many visitors, primarily commercial, visit and promise elaborate projects, but are never heard from again.

The United States plans to continue encouraging economic and political reform in Turkmenistan in FY1995. U.S. assistance in FY1995 is targeted on continued support for the Aral Sea regional initiative and continued funding for a training and exchange program. Should the Turkmenistani Government undertake a serious privatization program, newly privatized Turkmen enterprises will be eligible for loans and equity investments from the Central Asian-American Enterprise Fund.

Ukraine

The progress of the U.S. assistance program in Ukraine reflects quite closely the progress of the Ukrainian Government over the past year in economic and democratic reform. At the start of the year, there was neither the political will nor government commitment to put in force a systemic and comprehensive economic reform program. But by the fall of 1994, the Ukrainian Government had embarked on the path of comprehensive economic reform in conjunction with an IMF Systemic Transformation Facility drawing and negotiations for a full Stand-by Agreement. In response, USAID provided a \$72 million energy sector grant--which supports both macro-economic stabilization and specific energy sector reforms--as part of an international effort to support the IMF's Systemic Transformation Facility program. During the past six months, the individual pieces of our assistance program have begun to coalesce. Our assistance program has shifted in emphasis from humanitarian to technical aid and will move toward support for trade and investment as rapidly as possible.

Our assistance program in Ukraine can be divided into these general categories:

Activities to expand privatization and private sector development at local and national levels.

Activities that support macroeconomic stabilization and economic restructuring, and activities aimed at creating the legal framework needed for a functioning market economy.

Activities to support fair and free elections and voter education.

Activities to help create the conditions for a law-governed society by strengthening elements of the legal framework.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$325 million in technical assistance, \$93 million in food assistance, \$106 million in humanitarian assistance and \$129 million for the Cooperative Threat Reduction program. Over \$392 million of assistance had

been expended as of this date. In FY1994, the United States budgeted approximately \$211 million for technical assistance to Ukraine--excluding agricultural commodity programs and the energy sector grant--all of which was obligated before the end of the year. (See Appendix 1 for a complete description of obligations and expenditures.)

The U.S. assistance program in Ukraine includes a variety of different projects, including weapons dismantlement and destruction assistance under the Cooperative Threat Reduction program--the initial focus in 1994 was on democratic institution-building and training and exchange programs, but since the government committed itself to comprehensive economic reforms, we have realigned our priorities. Among the projects are:

Support for privatization through training, technical advisors, logistical support, the purchase of privatization vouchers, and legal advisors.

Projects to support the banking industry and regulation.

A power sector restructuring project.

Extensive support for the Central Electoral Commission prior to and during the presidential and parliamentary elections.

The establishment of a USIA America House in Kiev as well as educational and professional exchange programs.

Peace Corps activities focused on small business development and English language instruction.

Department of Defense Cooperative Threat Reduction assistance focused on dismantlement and elimination of SS-19 and SS-24 missiles.

In 1995, the United States will provide new bilateral technical assistance to support economic restructuring, privatization, private sector development, energy sector reform, exchanges and training, democratic institution-building and the rule of law. The United States also will provide an estimated \$75 million in security assistance under the Cooperative Threat Reduction program. Furthermore, the U.S. Government will be expected to provide additional support once Ukraine comes to agreement with the IMF on a Stand-by Agreement. We will look in the first instance to export credit financing as a means of providing such support.

The United States has also promised assistance to Ukraine in the context of the G-7 Action Plan for the early closure of Chernobyl and the reform and revitalization of Ukraine's energy sector. The United States pledged \$38 million over two years in such assistance at the G-7 meetings in Naples.

Uzbekistan

The U.S. assistance program in Uzbekistan in 1994 had a mixed record. On some fronts, such as economic reform, there has been some measure of success. But on the

democratic reform side, the record has been spotty. The Uzbekistani Government has finally begun planning for serious economic reform--and has just reached agreement with the IMF on a Systemic Transformation Facility--but for most of 1994, a gradualist approach hindered U.S. assistance efforts.

Our assistance program in Uzbekistan can be divided into these general categories:

Activities to foster the development of a competitive, market-oriented economy in which the majority of resources are privately owned and managed.

Activities to support the transition to transparent and accountable governance and respect for human rights and fundamental freedoms.

Activities to assist the Uzbekistani Government incorporate the concept of rule of law into its institutional practices and improve the understanding of democratic institutions and practices.

As of December 31, 1994, the U.S. Government had obligated a cumulative total of \$38 million in technical assistance, \$5 million in food assistance and \$23 million in humanitarian assistance. Over \$43 million of assistance had been expended as of this date. In FY1994, the U.S. planned to spend approximately \$22 million for technical assistance to Uzbekistan--excluding agricultural commodity programs. (See Appendix 1 for a complete description of obligations and expenditures.)

Major U.S. assistance efforts include the first stage of a regional program to address health and environmental problems related to the desiccation of the Aral Sea, significant funding to support privatization and economic restructuring, and a training and exchange program. The Embassy has made particular mention of the usefulness of the USIA and USAID exchange programs. Specific projects include:

Support for small-scale privatization and auction programs.

Providing a long-term economic advisor to the Ministry of Finance on reform and management issues.

Training and exchange programs for government and private sector officials as well as a student exchange program.

Peace Corps English-language training programs.

The United States, Israel and Turkey signed a Memorandum of Understanding in October to cooperate on assistance to the Turkmenistan and Uzbekistan rural and agricultural sectors. The three sides agreed to provide mutual support to programs establishing private demonstration farms, rural agribusiness centers, and training and exchanges. U.S. support for the initiative will come from existing technical assistance and exchange programs.

A number of problems have plagued U.S. assistance efforts in Uzbekistan. For example, the privatization process which showed signs of early success later fell off track. The Embassy cites personality problems as well as the Uzbekistani Government's own uncertainty about how to proceed with privatization. The Aral Sea program has received criticism for concentrating too much on seminars and studies and too little on action to address the problems. The Embassy also faults the Uzbekistani Government for unnecessary delays in the selection process for exchange programs.

The United States intends to continue to encourage economic and political reform in Uzbekistan in FY1995. U.S. assistance in FY1995 is targeted on continued support for the Aral Sea initiative, training and exchange programs, a health sector reform program, and economic and legal restructuring programs. Should the Uzbekistani Government proceed with a serious privatization program, newly privatized enterprises will be eligible for loans and equity investments from the Central Asian-American Enterprise Fund.

III. DESCRIPTION OF FREEDOM SUPPORT ACT-FUNDED ASSISTANCE PROJECTS IN THE NEW INDEPENDENT STATES, 1994

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

As the U.S. Agency for International Development (USAID) enters a third year of assistance to the NIS, our assistance activities have taken shape around three U.S. objectives of fostering the emergence of a market economy, supporting democratic transition, and strengthening the capacity to manage the human dimension of the transition. USAID assistance is provided through thirteen sectoral projects, twelve described below and one, Enterprise Funds, described in the Trade and Investment Initiatives section. A description of these projects, including some of the key results of USAID efforts, follows.

SPECIAL AND EMERGENCY HUMANITARIAN INITIATIVES

USAID has obligated a total of \$248 million, including \$135 million in FY1994, and expended a total of \$197 million for its Special Initiatives program, primarily to provide emergency and humanitarian assistance to the New Independent States (NIS) of the former Soviet Union. For the republics facing an extended crisis, the goal in 1995 will be to develop and fund activities that bridge the gap between emergency aid and developmental assistance.

Emergency Medical Assistance

Through a Presidential Medical Initiative, USAID funded Project HOPE to send donated medicines and medical supplies worth more than \$176 million (retail) to 377 NIS health facilities in 12 republics and 110 cities.

In response to critical medical needs identified in each of the 12 republics of the former Soviet Union, USAID has procured over \$7.6 million (wholesale) emergency medicines and related supplies.

USAID, in collaboration with the Government of Japan, provided vaccines, vaccine transport and storage equipment, and technical assistance to Moldova, Kyrgyz Republic, Georgia and Turkmenistan to help meet the primary vaccine needs for 1993/94.

Save the Children is carrying out emergency health activities in Armenia, Azerbaijan, Georgia and Relief International is undertaking a similar program in Tajikistan.

In response to the emergency health crisis in Ukraine, USAID is funding a \$15 million program for the immediate procurement of vaccine to combat a diphtheria epidemic; the procurement of insulin for juveniles; and the development of a health education program to reduce the incidence of hepatitis B among health workers. The use of this U.S. supplied vaccine has already shown a slowing down of the epidemic.

Emergency Response/Food Supply

USAID is providing milk for infants and milk and other foods for pre-natal and post-partum mothers in Armenia, Azerbaijan, Georgia and Tajikistan. A U.S. private volunteer organization (PVO) and the World Food Program (WFP) are handling distribution.

USAID responded to the national emergency in Armenia through a \$15 million winter fuel program, providing both kerosene heaters and kerosene fuel, which reached over 203,000 families and 400 schools on a regular basis last winter. For this winter, a \$6 million kerosene fuel program is in progress again to cover the most vulnerable population groups.

Also for Armenia, 100,000 metric tons of bulk grain was delivered from the U.S. Strategic Wheat Reserve under P.L. 480 Title II emergency food assistance.

Over \$9 million has been targeted to assist in the feeding of vulnerable groups and in providing spring and winter wheat seeds to Armenian farmers. New programs are under consideration in 1995 to expand the capability of domestic food production.

In Azerbaijan, USAID has provided \$2 million to the U.N. High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC) for assistance to displaced persons, refugees and conflict victims. U.S. PVOs serve as "implementing partners" for a significant portion of this assistance. Approximately \$9 million has also been provided through Save the Children to U.S. PVOs operating in Azerbaijan.

Since late 1992, USAID has responded to emergency needs in Georgia with: \$19.3 million in food for women and children; \$3.5 million in emergency medical assistance, and a \$2.8 million regional logistics unit (CLAU) through WFP to improve logistical support and donor coordination. Efforts

led by the Coordinator's Office in 1994 have been successful in coordinating humanitarian commodities deliveries with the European Union to prevent the overloading of the weakened Caucasus logistics network. The U.S. funding of the CLAU is now leveraging additional funding from both the EU and bilateral sources. The mid-term goal of this effort is the repair and strengthening of the Georgian port and rail infrastructure.

In addition, 100,000 metric tons of bulk grain from the U.S. Strategic Wheat Reserve and \$2 million in winter fuel have recently been provided for Georgia.

In response to the humanitarian needs created by civil strife in Tajikistan, USAID is providing approximately \$13 million in emergency and humanitarian assistance. Most of this assistance is being channeled through U.S. PVOs and "implementing partners" with international organizations such as UNHCR, being engaged in their areas of expertise. On a more direct basis there is a \$6 million grant to CARE USA under a Vulnerable Groups Feeding Program.

Capacity Building/Emergency Management Training

USAID is training NIS government institutions and personnel in modern emergency response techniques and the development of complimentary information systems. Tajikistan, Armenia and Georgia are the initial targeted countries.

Early Warning Systems

USAID and the Centers for Disease Control and Prevention (CDC) conducted a household survey last winter to project the level of preparedness of Armenian families for the approaching winter. In 1995, the activities of CDC are being expanded to provide early-warning public health surveillance systems in both the republics of Georgia and Armenia.

Special Initiatives

USAID will provide additional funds for the U.S.-Israel Joint Cooperation Program to provide training, technical assistance and cooperative scientific research in the Central Asian Republics.

ENERGY EFFICIENCY AND MARKET REFORM

The U.S. Agency for International Development has obligated a total of \$247 million, including \$82 million in FY1994, and expended a total of \$154 million to assist NIS countries in the transition of their energy sectors to market systems and to improve the safety of their civilian nuclear power plants. A reliable energy supply at affordable prices is vital to the success of NIS reform programs because of energy's critical role in industry, commerce and the household.

Energy Policy Reform and Strategy Development

USAID is working jointly with the Russians to develop

alternative strategies for future investment in Russia's power sector, including upgrading or phasing out the least safe nuclear power plants.

In cooperation with DOE and TDA, USAID is helping develop strategies for power and heat supplies to replace Russia's plutonium production reactors.

Assistance has been provided to Russia, Ukraine and Armenia in the drafting and modification of oil sector and energy laws. In Russia, tax policy, model leasing agreements and tender documents have also been developed to attract foreign investment in the oil sector.

Energy Sector Restructuring

In Russia, USAID assistance in power sector restructuring and privatization has focused on planning, drafting a market-based legal and regulatory framework, electricity pricing, access to financial markets, and promotion of domestic and international investment.

USAID is cooperating with the World Bank in Ukraine to support the competitive restructuring of the power sector. USAID assistance to the Ministry of Energy contributed to the G-7 Action Plan for early closure of Chernobyl. Regulatory procedures, tariff methodologies, legal and contractual documents and development of commercial generation and distribution companies are areas where USAID is assisting.

In November, USAID provided a \$72 million grant to Ukraine as part of a multi-donor effort to help the Ukrainian government achieve IMF balance of payments targets for the end of CY 1994. This balance of payments support, which was conditioned on energy price reform and power sector restructuring, will allow Ukraine access to loans and financial assistance from the IMF and other donors.

In the Kyrgyz Republic and Armenia, USAID efforts target energy sector policy, legislation on sector reorganization, establishment of regulatory bodies, and electricity tariffs.

USAID has supported the establishment of partnerships between the private U.S. utility industry and Russian and Ukrainian power sector organizations. Partnerships promote exchange of managerial, technical and financial knowledge of utility operation in a market economy. A partnership is also planned for Moldova.

In cooperation with the World Bank, assistance is being provided in Russia to improve oil and gas sector regulations to assure non-discriminatory access to oil export pipelines. USAID is helping SIDANCO, one of Russia's major vertically integrated oil companies, place its operations on a sound commercial basis. USAID assistance to the Ministry of Fuel and Energy focuses on divestiture of state shares in oil sector enterprises and the development of an oil products retail and wholesale market.

The U.S. Geological Survey (USGS) has helped establish

modern petroleum geology and geophysical data processing centers and geochemical labs in Russia. In Ukraine, USGS is assisting in the establishment of improved seismic data interpretation facilities for Western oil companies.

Coal sector restructuring and mine safety is the focus of assistance from U.S. labor-industry partnerships in Russia, Kazakhstan and Ukraine at Vorkuta, Kemerovo, Karaganda and Donetsk. In the Kyrgyz Republic and Armenia, two countries with limited indigenous fossil resources and highly dependent on imports, assistance is being provided to evaluate the feasibility of enhanced coal exploration and production.

Energy Efficiency Improvement

USAID helped improve the efficiency of district heating systems in seven cities in Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, Russia and Ukraine, resulting in a 30 percent improvement in efficiency and decreased carbon dioxide, sulfur and other emissions. Non-governmental energy efficiency centers have been supported by USAID in Moscow and Kiev, in cooperation with DOE.

An investment plan for the replacement of inefficient electrical motors and other electrical equipment throughout Russian industry was completed, and nine large industries were audited. Potential investment in the Russian electrical transmission system, which will lead to significant electricity savings, and U.S. trade opportunities have been identified.

Weatherization of hospitals, schools and other critical buildings is on-going in Yerevan, Armenia. A plan to weatherize and meter apartment blocks and rehabilitate the district heating system of Bila Tsirka, Ukraine was completed and is expected to lead to a World Bank Global Environmental Fund grant.

Nuclear Power Plant Safety and Regulation

In support of the multilateral Nuclear Safety Account (NSA), USAID has provided \$14 million for assistance to Russia and Ukraine to improve civilian nuclear power safety through the EBRD. Additional efforts funded by the FREEDOM Support Act are implemented by the Department of Energy and the Nuclear Regulatory Commission

Commodities and Mobilization of Financing

In addition to commodities being provided under some of the activities described above, USAID assistance has included commodities and equipment in a number of very carefully selected situations, primarily in Armenia, Georgia and Ukraine.

In Ukraine, USAID has funded the procurement of critically needed resins for a combined heat and power plant in Kiev for installation before this winter.

In Armenia, equipment for four mini-hydro installations has

been funded. Commodities to benefit the Ministry of Energy, state energy institutions, and the Yerevan City Council, including spare parts and materials to rehabilitate and maintain power plants, district heating plants and gas transmission companies are also being procured. Drilling consumables are also being supplied to operate a recently acquired oil drilling rig.

In select cases, USAID has assisted in the preparation of loans to mobilize funds from the multi-lateral donors. These include gas distribution efficiency in Russia (World Bank); Hrazdan power generation facility in Armenia (EBRD and World Bank); thermal and hydro power in Georgia (EBRD); natural gas delivery in Russia (World Bank).

ENVIRONMENTAL POLICY AND TECHNOLOGY

The U.S. Agency for International Development has obligated a total of \$79 million, including \$68 million in FY1994, and expended a total of \$19 million for a program to ensure that environmental quality goes hand-in-hand with economic and democratic reforms in the New Independent States. The initiative is implemented by USAID, the Environmental Protection Agency (EPA), the U.S. private sector, and U.S. non-governmental organizations in cooperation with their NIS counterparts in the public and private sectors.

Policy and Institution-Building

USAID is strengthening government and NGO institutional capacities--at national, oblast, kray and other local levels--to promote environmental and natural resource management policies linked to sustainable economic development. USAID is also providing financial and technical support to improve the ability of government and the private sector to pursue environmentally sound restructuring of key sectors and enterprises (industry, forestry, agriculture).

The Russian Far East Sustainable Natural Resources Management Program, which is focused around sustainable forestry and biodiversity issues in Khabarovsk and Primorskiy Territories (kray), includes an important component on policy and institution-building. Policy reform is a pre-requisite to supporting Russian efforts to develop a sustainable forest management system. This component will be led by the Harvard Institute for International Development (HIID). An HIID forest policy advisor is already working to develop forest economics training within the kray governments and federal forestry service. HIID will also strengthen the policies and incentives for effective management of forests including an examination of current laws and policies and their shortcomings, namely the lack of enforcement. The program will increase the total economic value of extracted timber and other forest products while reducing negative ecological impacts to a forest ecosystem to achieve a "win-win" situation. Third, the project will help determine the most cost-effective incentives and methods for forest regeneration. Finally, the project will help develop a methodology to value market and non-market costs and benefits of a successful multiple-use forest management system focused on conserving

biodiversity.

In addition to the above activities, in Russia and the Central Asian Republics HIID will support the preparation of projects suitable for funding from international sources such as the Global Environmental Fund (GEF).

In Russia, HIID will assist in making an initial evaluation of proposed programs to be funded under the Small Grants, Small Enterprise and Conservation Trust funds, based on their likely impact on local communities and local habitats.

USAID is undertaking a number of environmental demonstration projects.

In the Western NIS, USAID will help reduce contamination of the Dniepro River Basin -- the water supply for 30 million Ukrainians. Assistance has been provided to upgrade water supplies in Georgia.

In Russia, a number of demonstration projects are underway which will showcase the economic and environmental benefits produced by sound environmental planning and management. This includes air and water quality/pollution control planning in the industrial cities of Volgograd, Novokuznetsk and Nizhii-Tagil and a watershed management project outside Moscow.

Public Awareness and Environmental Accountability

USAID is supporting partnerships between U.S. non-governmental environmental organizations and their counterparts in the NIS to strengthen NIS management capabilities and enhance public participation in environmental management. Support is also being provided for public education programs to improve public awareness of environmental problems and efforts to solve them.

The Institute for Soviet-American Relations (ISAR), a U.S. non-governmental organization participating in the project, has begun a small grants program to strengthen NIS NGOs and build links between U.S. and NIS environmental NGOs. Thus far, approximately 200 grants have been awarded to NIS NGOs and joint US-Russian NGO partnerships. Some grants were used for media programs designed to raise awareness of local environmental concerns, others will support development of better management practices for environmental NGOs.

Aral Sea Initiative

In October, 1993, Secretary of State Christopher announced that the U.S. would provide \$15 million in assistance to the Central Asian Republics to help in efforts to halt further degradation in the Aral Sea Basin. USG assistance programs in Kazakhstan, Uzbekistan and Turkmenistan are designed to: 1) provide potable water and public health protection to communities most affected by waterborne diseases and increasing infant mortality; and 2) provide technical assistance and training to support regional cooperation in water management. A number of rapidly implementable potable water projects and regional water management activities were

developed to fulfill this commitment and are in various stages of implementation.

In Kazakhstan, the preliminary design has been completed for a project that will utilize local labor and USG supplied materials to upgrade and rehabilitate an existing water distribution system. The initial public health assessment has been completed and laboratory equipment will be shipped by early 1995.

The Turkmenistan project includes the construction of a reverse osmosis water treatment plant. The construction of the building to house the facility is well under way and all of the major process equipment has been shipped. The environmental health components of this project include the development and application of health education materials and provision of sanitation facilities.

Technical assistance to improve the operation and maintenance of two major water treatment plants is included in the Uzbekistan project. The design of the technical assistance and the initial public health assessment have been completed and laboratory equipment will be shipped by early 1995.

HEALTH CARE IMPROVEMENT

The U.S. Agency for International Development has obligated a total of \$93 million, including \$69 million in FY1994, and expended \$40 million to improve health care systems in the NIS.

Supply of Critical Vaccines, Pharmaceuticals and Equipment

Vaccine and Pharmaceutical Production

To address deteriorating vaccine production in Russia, USAID supported the provision of commodities, equipment and short-term technical assistance to reestablish the productive capacity of existing plants producing vaccines for measles, polio and DPT (diphtheria, pertussis and tetanus).

Merck and Lederle provided raw materials and input for production, as well as training in U.S. standard good manufacturing practices.

The U.S. Food and Drug Administration (FDA) has provided technical support in vaccine quality control regulation.

The FDA successfully negotiated a Memorandum of Understanding (MOU) with the Russian Government which simplifies the import registration procedures for high quality pharmaceuticals and vaccines which have been FDA approved. The FDA will negotiate similar MOUs in Ukraine and Kazakhstan in 1995.

Medical Technology Transfer Activity (MTTA)

In Russia, USAID is promoting private enterprise and U.S. investment in the health sector as well as improving regulatory, manufacturing and management practices for

critically needed pharmaceuticals. The MTTA program is designed to accelerate U.S. investment in the production and distribution of these drugs through technical assistance, training and the guaranteed purchase of product, by developing a partnership between U.S. pharmaceutical firms and the U.S. Government to "seed" a more self-sufficient private pharmaceutical industry. In December, USAID made awards to four U.S. pharmaceutical firms (Merck, MIR, Searle and Bristol-Myer Squibb) to study environmental assessments of manufacturing ventures proposed by these firms for production of critically needed medicines. If the studies show sufficient potential, USAID will award additional funds to develop these ventures, with the U.S. firm matching the USAID contribution on the basis of a two-to-one ratio.

Vaccine Security

Increasing the capacity of NIS republics to successfully manage their national immunization and disease control programs on a sustainable basis is central to USAID's vaccine security objective. To continue and expand the work started under the Children's Vaccine Program and the U.S.-Japan Joint Immunization Initiative, USAID's BASICS Project (Basic Support for Institutionalizing Child Survival) is providing assistance to improve the efficacy and efficiency of immunization programs in the NIS. BASICS is providing technical assistance to strengthen the institutional and self-sustaining capacity of the NIS Ministries of Health to plan, support, implement and monitor/evaluate immunization and disease control programs. In 1995 BASICS activities will be concentrated in the Central Asian Republics and Moldova; however, limited assistance will be provided NIS-wide.

Interagency Immunization Coordinating Committee

USAID has played a prominent role in developing the Interagency Immunization Coordination Committee (IICC) where all donors can share their plans in assisting the development of national immunization programs in the NIS. USAID will work with the donors to ensure coordination of technical assistance, training and commodities. The IICC was launched at a conference in Kyoto, Japan, on July 25-27, 1994, which brought major donors and NIS delegations together to discuss immunization and disease control activities in the NIS. USAID is providing support for the IICC Secretariat which is based in the World Health Organization (WHO). During the first meeting of the IICC, held in Amsterdam on November 11-12, USAID highlighted the need for a regional diphtheria control strategy as one of the most pressing health concerns in the NIS today. USAID is participating in the development of a WHO/UNICEF strategy and implementation program for diphtheria control in the NIS.

Health Care Finance and Service Delivery System Reform

Although most NIS republics have passed legislation enabling privatization of health care facilities and reforming health care financing through insurance, there remains an enormous task of improving the quality of health care while

maintaining access to health services.

Health Care Financing and Service Delivery Reform (ZdravReform)

USAID is supporting a program to test innovative methods of improving the efficiency, accessibility and sustainability of health services delivery and the use of incentives to reward quality of care. The ZdravReform program has now established field offices in Russia (Moscow), Central Asia (Almaty) and Ukraine (Kiev). In Russia, advisors targeted the Siberia region (Kemerovo, Novosibirsk, Tomsk and Altay kray oblasts). In Central Asia, efforts began intensively in Karakul (Kyrgyz Republic) and South Kazakhstan oblasts. In the Kyrgyz Republic, contractors are working with government officials to test a pilot health insurance system.

In Kazakhstan, reduced hospital stays and increased use of primary care physicians have resulted in incentives to increase efficiency in health care delivery.

The program has just launched a major new effort to spearhead the privatization of the Kazakhstan national pharmaceutical procurement and distribution system.

In Ukraine, workshops for pharmaceutical industry representatives which focused on investment strategies and the global economics of the industry, and study tours to the U.S. and Canada for health care officials have facilitated programs to plan alternative health care financing methods.

In Russia, five "fast track" grants were recently announced in Siberian oblasts to test cost-effective payment systems, establish multi-specialty outpatient group practices as an alternative to expensive hospital care, and identify policy/legal changes needed to permit the success of these innovations.

Advisors in Russia also worked with World Bank officials in Central Russia to explore possible opportunities for coordinated efforts in health care reform.

Health Care Partnerships

The Health Care Partnerships Program links U.S. hospitals and clinics with relevant NIS health care institutions to address significant mortality and morbidity issues, improve health care organization and introduce market-oriented solutions to hospital and health care delivery and finance problems. U.S. participating institutions now include 48 hospitals/health systems, in 16 states including 18 medical schools. In the NIS, 43 hospitals in 10 republics are participating. The partnerships also involve ministries of health, local and regional health system administrations and schools of health sciences, to ensure the viability and sustainability of the changes being made throughout the health system. Of the 23 active partnerships, one is supported through an individual grant to the Children's Health System, Inc., and 22 are supported through a cooperative agreement with the American International Health

Alliance (AIHA).

The program has resulted in nearly 2,000 exchanges of health professionals, approximately half of which have been to the U.S.

U.S. partnerships have made in-kind (voluntary) contributions of \$35 million, including \$10 million in donated equipment and supplies.

In addition to the individual partnership activities, the AIHA partners have collaborated in more than 40 workshops, seminars and conferences on such topics as health reform, health services management, nursing administration, infection control, pre-hospital emergency care, prenatal assessment, family centered birthing and pediatric nutrition. Four regional centers have been established for training of trainers in pre-hospital emergency medicine.

The NIS partnerships are having a significant impact on the quality, efficacy and productivity of health care delivery in their communities. Their work has resulted in: decreased lengths of stay in all institutions; improved infection control techniques; training of 115 NIS professionals in health care administration and management; reduced rates of abortions due to family planning programs in four partnerships; establishment of five neonatal resuscitation resource centers; active dissemination of information from target hospitals to surrounding areas; and, a new emphasis on the role of nurses in patient care and administration.

Health Information and Response Capabilities

USAID is supporting the Centers for Disease Control (CDC) in establishing public health surveillance and monitoring systems in the Caucasus, Central Asia and Russia. These systems include the development of emergency preparedness plans and efforts to strengthen the epidemiological capacity of Ministries of Health for disease monitoring, investigation and control. This program aims to improve the collection, analysis and dissemination of timely health data to decision-makers in order for them to develop and monitor health programs. Currently, CDC is assisting NIS health officials with high priority diphtheria and polio control activities in the NIS.

Women's Health Initiatives

USAID has developed a 3-year program to support the modernization, improved effectiveness and financing of women's reproductive health care in Central Asia. Emphasizing increasing access to family planning services, the program was designed to reduce reliance on abortion, which results in adverse health consequences and high levels of maternal mortality.

Selected clinical sites were upgraded with modern equipment, and 60 service providers trained in improved clinical skills and training techniques.

Through seminars and clinical training, hundreds of physicians and other health care providers received updated information on modern contraceptives, sound clinical practice, infection control and counseling.

Qualitative research was used to develop mass media messages on the health benefits of birth spacing. And critical to program sustainability, a contraceptive marketing effort was launched in Kazakhstan: 1,500 pharmacists were trained, and women of Kazakhstan can now buy a variety of high quality affordable contraceptives in drug stores.

Strategies for similar programs of assistance for Russia and Ukraine were developed in late 1994, and implementation will begin in early 1995.

Country- or Region-Specific Health Problems

In spring 1993, a regional Environmental Health Workshop was held in Uzbekistan to bring officials of both health and ecology together to learn about new techniques in epidemiology and risk assessment. Follow-up country specific activities have been developed in conjunction with training programs.

To better understand the prevalence of the reported high rates of anemia among women and children in the NIS, USAID is supporting surveys in the Aral Sea region of Uzbekistan and the Kzyl-Orda region of Kazakhstan. The Uzbekistan study found that the major cause of anemia was nutritional and not caused by chemical toxicity which could be attributed to environmental pollution which is of widespread concern in the Aral Sea region. Results from the Kazakhstan study will be available in mid-1995.

PRIVATE SECTOR INITIATIVES

The U.S. Agency for International Development has obligated a total of \$543 million, including \$375 million in FY1994, and expended \$259 million in developing a free market private sector in Russia and the other NIS. These programs are producing a private sector founded on the principles of private ownership and the free exchange of goods and services.

Privatization

Privatization activities concentrate on implementing policies and effecting transactions to move state-owned assets into the hands of private owners. USAID typically initiates privatization voucher distribution programs, auctions of large enterprises, small-scale privatization, demonopolization initiatives, and complementary public education programs.

The mass privatization program in Russia was successfully completed on July 30, 1994. Results from USAID's and other agencies support for the program include: 144 million vouchers were distributed; 22,000 medium-to-large companies are now joint stock companies; and more than 40 million Russians are now active shareholders. By June 1994, voucher

usage among Russia's urban population reached 93 percent. Eighty-six of 88 Russian regions participated in the privatization program. According to recent reports, 70 percent of all Russian state property has been privatized. Following the voucher privatization programs, USAID is supporting privatization by cash auctions. The sale of the balance of joint stock companies and residual shares held by the government for cash will allow this portion of the privatization process to be partially self-financing, cause municipalities to support the process, act as instructive mechanisms for secondary market participants, and introduce the necessary capital into enterprises. A goal of cash auctions and other forms of mass privatization is to depoliticize the enterprises so that managers no longer turn to the state for subsidies or credits in times of financial distress.

USAID is implementing privatization assistance programs in Ukraine, the Kyrgyz Republic, Kazakhstan, Moldova, and to a lesser extent in Uzbekistan and Belarus. In each country, USAID funds auction systems to transfer state-owned assets to private individuals and entities; small-scale cash auction systems are being implemented along with more complex mass privatization systems for larger enterprises: For example, more than 6,000 small enterprises were privatized in Kazakhstan and 98 percent of the citizens now hold coupons allowing them to participate in the mass privatization program. The results have been impressive. A recent survey of newly privatized small enterprise shows: an increase in average employment per firm of approximately 20 percent; substantial financial investment on the part of new owners; increased business revenues; higher employee salaries; and a wider assortment of goods and lower overall prices offered by privatized enterprises relative to the public sector. In Kazakhstan and the Kyrgyz Republic, the mass privatization programs are targeted for completion by December 1995. USAID has funded the printing and distribution of vouchers, related public education programs, special demonopolization and antimonopoly initiatives, and the creation of bidding and clearing systems. At the same time, USAID is working with the governments to lay the groundwork for capital market institutions and share trading infrastructure.

Instituting rational and enforceable land ownership rights is an essential part of the NIS transformation. USAID activities throughout the region are intended to accelerate the privatization of urban and agricultural land, broaden and strengthen ownership rights, and introduce mechanisms to provide legally enforceable and easily tradeable land titles. In Russia, for example, USAID is assisting municipalities to transfer their land rights to private enterprises and to design procedures and marketing strategies for the sale of surplus land. There is also a program to help develop an integrated land and real estate information system, which enhances the ability of citizens to research land titles and complete transactions, and generally improves the quality, quantity and timeliness of the information flow for all users and contributors. Other activities involve technical assistance to reorganize farms, train real estate appraisers and build local capacity to

survey public opinion on land and real estate privatization.

Detailed privatization and business plans for the Port of Murmansk have been completed and are being adapted to the Port of St. Petersburg.

Post-Privatization

Building upon the successful transfer of state-owned assets to private ownership, USAID is assisting Russia and the other NIS in building the business and legal infrastructure necessary to help newly-privatized enterprises operate and prosper. USAID supports local counterparts who actively engage in: effecting legal reform; creating systems of financial intermediation, including stock exchanges; strengthening essential free market institutions, including independent antimonopoly, securities, and trade commissions; and developing a private-sector capacity to service private firms.

A USAID-funded team oversees the Russian Privatization Center, which is continuing to transfer state-owned assets to the private sector and is coordinating donor activities involving a range of post-privatization functions. Regional and urban clearing and settlement organizations are opening across Russia, attempting to standardize and improve the share trading process; and initiatives to develop share registries, depositories, custodians and transfer agents are emerging as Russia's capital market develops.

A complementary package of activities follows the mass privatization programs. The model Russian Privatization Center is being expanded to the regional level through ten local privatization centers. Training in accounting standards and regulations for privatized enterprises is being conducted. New securities clearing and settlement organizations receive technical support to link widely dispersed securities markets.

In the Kyrgyz Republic approximately 300 enterprises were privatized in FY1994. USAID's efforts in FY1995 concentrate on generating broader market reform and encouraging new market participants. Principal activities include capital market development, special demonopolization initiatives, and corporate and commercial law reform.

USAID is widely and deeply engaged throughout the NIS in providing technical assistance to develop efficient and transparent capital markets, foster initial public offerings, and institute the essential business and legal infrastructure for securities markets. In Kazakhstan and the Kyrgyz Republic, for example, USAID has initiated programs to start the whole range of institutional and legal functions which are essential for an operational capital market. This includes the development of stock exchanges, clearing and settlement organizations, share registries and depositories, securities commissions, and methods to promote fair and efficient corporate governance and share trading practices.

USAID support for legal reform includes encouraging the adoption of business and commercial laws that rationally

follow from privatization and related post-privatization initiatives. Pilot activities with privatization investment funds, securities trading, share registration and transfer, and corporate governance have yielded proposals for legal reform at the national level. Also, local counterparts are seeking legal reform to break up monopolies, articulate and implement corporate and commercial laws, determine land rights, promote competition, and generally enable the development of private ownership and the free exchange of goods and services. An example of this activity are the USAID-funded technical advisors who helped the commission appointed by President Yeltsin to draft the new Civil Code. Part I of the code, passed by the Duma in December 1994, focuses primarily on issues such as sales, negotiable instruments, letters of credit, and secured transactions. We are continuing to work with the commission to complete Part II of the Code, which will include securities, banking, and tax codes.

Market transition in the NIS is impeded by the monopolistic structure of industrial production and trade, and the paucity of analysts and other market participants trained in market economics. USAID funds activities designed to reduce monopolistic control and build a cadre of skilled market participants. For example, In Russia and Ukraine, USAID is helping to implement anti-monopoly laws and related enforcement mechanisms. In Kazakhstan, USAID has worked with the government to dismantle holding company structures and strengthened the antimonopoly commission, which plays an important role in breaking up state monopolies and promoting competition.

A program to assist private farmers and new cooperative farm groups whose lands have been privatized is underway in four pilot areas of Russia. This program will help communities develop methods of financing social services, previously provided by state and collective farms. The program also will expand the number of viable agribusinesses and help create new agricultural credit supply systems for private farms and agribusinesses.

Business Development

In addition to assisting recently privatized firms, USAID provides assistance to meet the special needs of new and small businesses. these will be the principal source of new employment and income as the NIS countries restructure their economies and shut down unproductive and non-competitive state-owned enterprises.

USAID/Moscow's New Business Development Activity provides advice to local governments on improving the legal and regulatory framework for business development. Additionally, it provides training, commodities and advisory services to local training institutions, local governments supportive of private business development, member-based business associations, and private business support services. The NBDA implements its activities and programs through six offices in Russia: Ekaterinburg, Novosibirsk, St. Petersburg, Smolensk, Vladivostok and Voronezh.

The Enterprise Development Project (EDP) has established five Local Business Centers in Russia which provide consulting services to new and existing small and micro businesses on subjects such as business planning, financial analysis, and how to comply with local and (if appropriate) federal regulations. The consulting help is provided in two forms: advice on the running of the Business Centers and advice directly to area businesses. In both cases the aim is practical help in business planning and problem solving in response to the specific and immediate needs of the individual client or organization.

The Foundation for International Community Assistance (FINCA) implements a micro-enterprise development project in the Kyrgyz Republic and Kazakhstan consisting of: credit services, business management and training; and institutional development of financial intermediaries. The project provides credit for working capital and small assets through a network of democratically managed village banks (informal community savings and loan funds); pre-loan training to potential borrowers on how to obtain loans; training to borrowers on business management, planning and marketing; and organizational and technical assistance to village banks.

The Technology Management and Transfer Group of Virginia Tech, together with the Atlas Group, a consulting firm, is developing a business incubator for technology commercialization at the Academy of National Economy in Moscow. The facility allows individual scientists and engineers to remain at their home institutes, helping the research groups remain viable and become sources for economic development. The incubator facility provides support services to commercialize technologies developed at the research institutes.

The Morozov Project seeks to develop management education in Russia by establishing a network of local business training institutions committed to providing managers with the skills necessary for success in a market economy. These institutions work together to develop core curricula and teaching materials, and themselves receive technical assistance and training from Western professionals. This is accomplished through an "adoption" process whereby local institutions are teamed with Western business consultants, and through a "twinning" process whereby Russian curriculum development teams are paired with Western professors and faculty. To date, Morozov has established seven key strategic regions, and has 41 Business Training Centers (BTC's) and candidate BTC's in Russia.

Through the Citizen Democracy Corps' Business Entrepreneur Program, American volunteers provide on-site assistance to private and privatizing small and medium business and to public and non-governmental organizations that support business development in the NIS region. CDC's volunteer advisors are experienced senior level entrepreneurs or managers who volunteer their time for two to three months.

Junior Achievement International will expand its activities in Russia to provide economic education and entrepreneurship

programs to over 1 million high school and college students over the next two years.

Washington State University is working with the State University of Krasnoyarsk and private sector organizations to establish a Small and Medium Enterprise Development Center modeled after successful programs WSU has run in the United States and in Romania.

US West, with the assistance of USAID, Russian Government bodies, U.S. businesses and institutions, is establishing three self-sustaining Business Skill Development Centers in Russia (Moscow, St. Petersburg and Nizhny Novgorod) in 1995. These Centers instruct Russian managers, workers, small business owners, and entrepreneurs, using a broad range of practical methodologies, to successfully work in, manage and develop businesses in a market-based economy.

Through the establishment of a \$10,000,000 credit/equity fund, the Fund for Democracy and Development (FDD) is providing funds for start-up expenses, investment in new technology, upgraded equipment, etc. to entrepreneurs and small enterprises. To compliment the credit/equity fund, FDD is also managing a banker's technical assistance and training program designed to instruct Russian banks and bankers in lending specifically to new or small business.

The Center for Citizen Initiatives' Economic Development Program (EDP) gives support and assistance to promising local entrepreneurs and to new business owners providing them with a combination of business training, business services, consultants and media education, both in the United States and in the NIS. It currently operates in St. Petersburg, Rostov-On-Don, Volgograd, Yekaterinburg, Voronezh and Moscow in Russia.

The Technical Assistance Center for Market Economy (TACME), established by the University of Alaska, is dedicated to training Russians in modern business methods, increasing U.S. business activity in the Russian Far East, and improving U.S.-Russian business ties. To date, TACME has opened four local training centers from which an average of 35 entrepreneurs graduate per month.

Opportunity International (OI) has been in Nizhny Novgorod for the last three years and has created an independent local NGO that provides a micro-lending and leasing program to small businesses and entrepreneurs. OI plans to open a small business incubator in 1995, which is expected to impact 500-600 small businesses (2300 people) over its two year life span.

The Center for Financial Engineering and Development (CFED) is providing long-term advisors in Georgia and Armenia to manage a private sector development program providing technical assistance and training to local private and public sector institutions and individuals involved in small business development. The Advisors also work closely with USAID/Caucasus, host-governments, other donors, USAID contractors/grantees, the Peace Corps, and other development organizations to try to maximize the impact of the technical

assistance programs and avoid duplication and redundancy.

In Ukraine, Belarus and Moldova in 1995, USAID will fund NEWBIZNET, a program to strengthen local organizations' ability to assist private businesses. The program will also help develop local networks of business associations, banks, trade unions, business leaders and local authorities to create a supportive community environment for private business operations.

FOOD SYSTEMS RESTRUCTURING

The U.S. Agency for International Development has obligated a total of \$74 million, including \$31 million in FY1994, and expended \$24 million to work in partnership with the NIS to develop market-based food production and distribution systems.

Agribusiness Partnerships

USAID is helping create efficient, agricultural input supply, food processing and food distribution systems by providing skills, technology and training. The intent is to catalyze NIS private sector development by facilitating and leveraging the involvement of private U.S. agribusiness companies and cooperatives.

USAID has cooperative agreements with The Citizens Network for Foreign Affairs (CNFA), Tri Valley Growers (TVG), and the Agricultural Cooperative Development International (ACDI) to foster partnerships between American and NIS private agribusiness-related enterprises. These associations award subgrants to U.S. companies primarily to provide technical assistance and agricultural training to help create efficient food systems that span the food chain from post-harvest to marketing and distribution.

CNFA has offices in Moscow and Kiev. Subgrants for activities in Russia and Ukraine have been awarded to American Breeders Service, The Pillsbury Company, T.P.C. Foods, Inc., Cargill, Inc. (International Seed Division), Freedom Farm International, Avian Farm Enterprises, Monsanto, Golden Valley, Kiev-Atlantic U.S., Heinz Development Corporation, Ben & Jerry's, Ventures East, Magna C Inc., Ibberson International and Continental Grain. These subgrants, totaling nearly \$30 million are leveraging over \$155 million in additional U.S. investment.

TVG's emphasis is on Moldova, Kazakhstan and southern regions of the NIS with milder climates and greater agricultural potential. TVG subgrantees include Petoseed Company, Wentz Bros./Diomedes Inc., and CTC Foods for activities in Russia, Ukraine, Moldova and Georgia. These activities are coordinated through an office in Chisinau, Moldova.

ACDI focuses on activities in processing and marketing, technical trouble shooting, operation and management training, business/strategic plans, and product profiling. ACDI's primary focus is on the Central Asian Republics through its office in Almaty, Kazakhstan. ACDI has awarded

a small subgrant to prepare a modernization plan for the dairy association in the Almaty region.

Grain Storage

USAID helped to improve storage capability for perishable foods and feed grains to help NIS republics provide their people with a stable and secure food supply. A number of problems were experienced in this project, eventually leading to its cancellation in December 1994.

A grant in September 1992, to North American Agriculture, Inc., provided funding for the construction of 57 grain storage complexes in Russia, 5 in Ukraine and 18 in Kazakhstan. Difficulties in agreeing on suitable farm locations, storage unit size relative to the size of private farms, and insufficient interest and capacity in NIS counterpart entities delayed implementation. Rather than extending the program, it was decided to curtail the activity with only 30 of the complexes fully or partially completed. A grant to Global Steel funded construction of 10,000 metric tons of potato storage facilities in Russia (two units of 2,500 metric tons each) and Ukraine (one unit of 5,000 metric tons capacity). These facilities were completed and are currently in use.

Grants to U.S. institutes and universities supported training in potato harvesting, storage, handling and marketing and an assessment of the grain and storage capabilities in Russia and Ukraine.

DEMOCRATIC PLURALISM INITIATIVES

The U.S. Agency for International Development has obligated a total of \$126 million, including \$87 million in FY1994, and expended \$49 million to cooperate with the NIS as they make the transition from one-party, centralized regimes to pluralistic democracies. USAID finances technical assistance and training programs in five areas critical to open and participatory democratic systems.

Political Process

USAID facilitates the strengthening of local, regional and national democratic institutions and processes by supporting the development of political parties, civic organizations and independent labor unions, and the holding of free and fair elections.

Grant activities continue with the International Republican Institute, the National Democratic Institute, the Free Trade Union Institute of the AFL-CIO, and the International Foundation for Electoral Systems.

In FY1994, Russia, Ukraine, Georgia, Moldova, Kazakhstan, the Kyrgyz Republic, Tajikistan and Uzbekistan received election-related training and technical assistance. Government officials, central election commissions and civic organizations worked with USAID grantees to rewrite electoral laws, train poll workers and provide voter education.

With the assistance of USAID grantees, political parties, candidates, independent trade unions and civic organizations in the NIS are increasingly participating in political processes.

Assistance will continue to focus on training parliamentarians to function more effectively as members of political parties and coalitions, on developing political parties and civic organizations, and national and local elections.

Assistance in Russia will target the administering of parliamentary elections in 1995 and the presidential election currently scheduled for 1996.

In Ukraine, grantees will work with political parties, elected representatives, civic organizations and democratic trade unions to increase their participation and effectiveness in the political reform process.

In Central Asia, grantees will provide parliamentary training in coalition-building and legislative drafting, as well as support for political party development, campaign management, and poll-worker training leading up to and following elections in the Kyrgyz Republic and Tajikistan in early 1995.

Rule of Law

USAID supports the development and strengthening of laws, legal institutions, and civic structures necessary for the transition of NIS countries to democratic, market-oriented societies. In addition, an interagency effort has been launched to assist the NIS in fighting the rise of crime.

The Rule of Law (ROL) Consortia began activities in early FY1994. Along with the American Bar Association's Central and Eastern European Law Initiative Program (ABA/CEELI), the ROL Consortia are carrying out a variety of legal reform activities across the NIS, including assisting in:

- training judges, defense attorneys and prosecutors;
- helping to establish increasingly independent judiciaries, continuing legal education capacity and indigenous bar associations;
- introducing public law clinics;
- expanding the use of jury trials throughout Russia;
- providing expert advice on commercial and criminal codes; and
- reviewing draft constitutions.

The ROL Consortia recently solicited proposals for small-grants programs for U.S. and indigenous NGOs working in legal reform and human rights; the first grants will be announced in February 1995. Other new activities include a program to help law school faculties in Russia and Ukraine design new law curricula, as well as a program to establish an electronic database to provide Russian NGOs with legal information in the areas of environmental law, labor and

consumer rights, and human and civil rights.

Through interagency transfers, USAID also supports the Congressional Research Service's (CRS) programs for the Russian and Ukrainian parliaments. CRS's programs focus on creating and expanding legislative information, research, and analytic services, as well as developing the capacity of parliamentarians and their staffs to use those services more effectively. CRS is working with parliamentary committees on procedural issues and policy oversight. The programs provide technical assistance and training, automation equipment and networking, as well as library materials, and serial subscriptions to the parliaments.

Indiana University, in collaboration with the U.S.-Ukraine Foundation, is also assisting the Ukrainian parliament with USAID funding.

Recognizing that the rise of crime in the NIS poses dangers both for the course of reform in the NIS and for the international community in general, the Administration assembled a package of programs to help the NIS develop new techniques and systems to cope with crime. This interagency effort will follow two main tracks: training and technical assistance for law enforcement agencies and technical assistance for the reform of the criminal justice system.

A number of U.S. Government agencies will be responsible for implementing the law enforcement activities. These new programs will be coordinated by the Bureau of International Narcotics Matters at the Department of State. The first training program --on fighting financial crimes--was conducted in November in Moscow by instructors from the Federal Bureau of Investigation. In 1995, law enforcement agencies will offer an ambitious schedule of courses and other training activities. It is anticipated that FY1995 funding under the law enforcement initiative will total \$15 million.

The rule-of-law program will include additional activities to support enabling criminal legislation and the reform of the criminal justice system. Agencies participating in this effort include USAID, the Department of Justice and USIA. Planned programs include expansion of the Russian jury trial initiative to include the training of prosecutors, technical assistance to procuracy training institutes in the NIS, and expanded training programs in the United States for parliamentarians and executive branch officials involved in the fight against crime. Total funding in FY1995 for this initiative will amount to approximately \$6 million.

Local Governance

USAID helps municipal governments in the NIS become more transparent, accountable and responsive as they move to increasingly more democratic societies and market-driven economies.

A consortium led by Research Triangle Institute continues to implement an NIS-wide program to help municipal governments in several focus cities introduce new management and

financial practices and upgrade their municipal services in key areas such as ambulance service and garbage collection. This program is now operational in eight NIS cities, with resident advisors stationed in Moscow, Nizhny Novgorod and Vladivostok in Russia; Lviv, Ternopil and Kharkiv in Ukraine; Atyrau in Kazakhstan; and Karakol in the Kyrgyz Republic. The program is also supporting a Mayors' Association in Ukraine, and recently hosted a U.S. study tour for 25 of Ukraine's most reform-minded mayors.

Strengthened Civil Society

USAID supports the development of non-governmental organizations (NGOs) to help create broad and diverse civil societies in the NIS.

Through World Learning, USAID supports U.S. PVOs working directly with NIS counterparts to increase their capacity to address social service needs, create income generation opportunities for at-risk populations, and strengthen local NGOs. To date, subgrants have been made to 44 NGOs. Through these subgrants, U.S. organizations have helped NIS counterparts improve their ability to deliver services to their client populations.

Under a separate activity, Counterpart has established an NGO/PVO center to promote the development of an NGO sector in Ukraine, Belarus and Moldova.

Winrock International's Leadership Program is working to enhance the development and operations of a group of united women's NGOs in Russia and Ukraine by facilitating their collaboration with U.S. counterparts.

New initiatives to strengthen indigenous NGO administrative and management capacities are under way in Russia and Central Asia. These programs will also help to identify and address legal, cultural and institutional constraints which NGOs must overcome in the process of forming civil societies in the NIS.

In Russia, Ohr Torah/Helping Hand is carrying out a self-help training program for young adults, with the aim of encouraging their participation in Russia's increasingly democratic, market-driven economy.

Independent Media

USAID supports the development of independent press, television and radio organizations through training, technical assistance and the provision of equipment.

USAID funding for Internews provides training and technical assistance to journalists and non-governmental broadcasting stations in Russia, Ukraine and Kazakhstan.

The Russian-American Media Partnership Program links American and Russian media organizations with the goal of assisting Russian counterparts to become financially viable and self-sustaining.

USAID is also providing funding to the Children's Television Workshop to develop and broadcast a Russian-language version of the PBS educational children's program "Sesame Street," focused on teaching democratic values.

HOUSING SECTOR REFORM

The U.S. Agency for International Development has obligated a total of \$217 million, including \$193 million in FY1994, and has expended a total of \$37 million for cooperation with the NIS as they develop a market-oriented housing sector. Of these funds, \$160 million finances housing units and retraining for demobilized Russian military officers returning from the Baltics and elsewhere, while the remainder funds sector reform to enable permanent legal and operational changes in the way housing is produced, financed, owned and maintained. Housing is a key sector because of the near universal massive drain on public budgets represented by subsidized public housing in the former Soviet Union, and because availability of housing is key to labor mobility as industries undergo reform.

Private Housing Markets and Ownership

In coordination with republic and local-level governments throughout the NIS, USAID supports initiatives to increase private ownership and management of housing, primarily by introducing competitive management and maintenance services and promoting condominium formation.

Over 100,000 housing units in Moscow and 5,000 in Novosibirsk are under contract with private firms for maintenance services. Eighty new private maintenance firms have entered the market to respond to this demand. Due to the success of the USAID demonstration project, the Mayor of Moscow has issued a decree that all new units must procure maintenance services through competitive means.

Also in Russia, a Model Condominium Association Charter and By-laws were developed and the first condominium associations were registered in 8 cities.

USAID has been providing technical assistance to the City of Odessa, Ukraine to help implement a demonstration project to privatize the management and maintenance of municipally-owned, multi-family housing units. A private Ukrainian firm began work on this project, which marks the inauguration of the first private management maintenance contract of municipally-owned housing in Ukraine.

In conjunction with two Ukrainian state committees, USAID has co-sponsored the International Housing Conference in Kiev, which is expected to result in a comprehensive agenda on the future of housing privatization in Ukraine.

A demonstration program was initiated in Almaty, Kazakhstan to privatize the management and maintenance of housing at a 1,000 unit pilot site.

Condominium associations were formed at three pilot sites in Yerevan, Armenia. Triangle Ltd., the demonstration

condominium association which USAID is working with in Yerevan, has signed a contract with a private firm, Sarik, to provide housing maintenance services to a nine building pilot site. This will mark the first time in Armenia that housing services are being provided by private homeowners organized as a condominium association.

USAID has helped develop condominium organization and property management training courses at Yerevan State University. In cooperation with the city of Yerevan these courses will be offered to city housing offices who will help in housing privatization.

Under the World Bank's Earthquake Reconstruction Zone Project, USAID is helping organize condominiums in units being built through competitive bidding procedures. USAID is providing similar technical assistance to the Armenian YMCA on the UNHCR (United Nations High Commissioner for Refugees) financed Shelter Program in 1995. USAID will help in the expansion of "design build" competitions for low cost refugee housing.

Land Privatization and Real Estate Development

USAID provides technical assistance to NIS countries to transfer ownership of public land parcels to the private sector, by helping establish a system for land valuation and zoning, and improving land allocation and registration procedures.

USAID/Moscow with the State Property Committee (GKI) initiated a pilot training program to develop the capacity of the Society of Appraisers in St. Petersburg to provide training to real estate industry professionals nationwide.

The city of Kharkiv, Ukraine held its third successful land auction in October, yielding the city an estimated \$355,000. From now on Kharkiv will continue all land disposition activities on its own using its own resources to conduct land auctions. In Kiev, a land titling and registration technology pilot project began in October.

In Kazakhstan, USAID provided materials and training to members of the State Land Committee and the Almaty City Land Committee to encourage transition to market-based systems for land allocation. These efforts have led to a pilot land auction program in which the Almaty city administration successfully held its first land auction for 12 parcels of vacant urban land in January 1995--a vital first step in the creation of a market-based real estate sector. A similar pilot auction was undertaken with USAID assistance in Ukraine.

The Armenian Real Estate Association (AREA) was officially registered with 21 founding member firms, mostly brokers, as well as representatives from the nascent property management community.

Reduction of Subsidies and Creation of Housing Allowance System

USAID provides support to NIS republics to help reduce subsidies and establish housing allowance programs to assist vulnerable groups, such as the elderly, who are unable to afford higher rents.

With USAID assistance, Moscow and approximately 60 percent of the surrounding cities have begun implementing programs of rent increases and housing allowances. Housing allowance offices have been opened throughout each city to implement the need-based program.

A demonstration project is replacing interest rate subsidies with an up-front lump payment calculated based on length of service combined with mortgage financing for demobilized officers in Nizhny Novgorod.

A USAID-supported demonstration project will work with Russian municipalities to establish market-based pricing of community services.

USAID supported the formation of an inter-ministerial working group to design and implement a national policy on housing allowances in Kazakhstan. The cities of Talgar and Kapchagai have been chosen as sites for policy development and pilot projects.

In support of Ukraine's agreement with the IMF, USAID will assist Ukraine in reducing subsidies and instituting new pricing policies.

Housing and Municipal Finance

USAID is cooperating with government ministries and banks in the NIS to establish pilot programs for commercial financing and market-based mortgage lending and to develop a regulatory and financial framework for public infrastructure in support of new development.

Several Russian banks are issuing dual indexed mortgages on a trial basis. The newly formed Association of Mortgage Bankers has developed a training curriculum for banks interested in establishing mortgage lending operations.

USAID is providing policy advice to the newly established finance facility ("Housing Bank") for construction and mortgage finance in Kazakhstan. Similar work will be initiated with other banks in the country.

Legal and Institutional Reform

USAID supports the efforts of reformers in the NIS to create the human capacity and the legal and institutional framework for a viable private housing market. Long-term resident advisors assist republic and municipal governments. The Russian Mortgage Lending Agency was established and President Yeltsin signed a decree which establishes the basic framework for mortgage lending in Russia. Condominium enabling legislation has been enacted by many cities to permit formation of condominium associations.

President Kuchma of Ukraine announced on October 13 a plan

of economic and social reform, declaring "the active implementation of the housing policy to be one of the most pressing key issues of the new economic policy of the state." This program, involving the development of a housing market, the creation of a mortgage system, and an increase in the construction of housing will be presented to the Parliament by the end of 1995.

USAID training and assistance to key decision makers in Kazakhstan resulted in a Presidential Decree authorizing short term and long term leases of land, a Presidential Resolution authorizing individuals and legal entities to sell, lease, or mortgage land rights, and a completed comprehensive land code to incorporate market-oriented provisions.

In Armenia, a land tax law was adopted. The State Housing Privatization Law was passed by the Armenian Parliament in June. With this law in place, the Armenian government expects to privatize most of its public housing stock over the next two years. USAID is working closely with the Ministry of Economy to establish the administrative structure necessary for the implementation of the law including the establishment of an administration fee and the development of a system to ensure free public access to technical and financial information about privatized units.

USAID submitted guidelines for bidding procedures and contract administration for all government funded contracts in Armenia to the State Committee on Architecture. The Committee is expected to adopt these guidelines as a law which will require that all public construction be competitively bid.

Russian Officer Resettlement

At the Vancouver Summit President Clinton committed U.S. support for the construction of 450 housing units and employment training for Russian Officers being demobilized from the Baltic countries and elsewhere.

As of the end of December, 142 units in the construction component were completed, and 71 units in the voucher component were purchased, for a total of 213 units.

The remaining construction units--230 of them-- and 9 voucher purchases will be completed by the end of May 1995.

At the Tokyo G-7 meeting in July 1993, President Clinton announced a \$160 million follow-on activity to provide an additional 5,000 housing units for demobilized officers returning to Russia. Half the units will be constructed by U.S. and Russian firms and the other half provided through vouchers.

As a result of this Presidential commitment, the Russian government was able to come to agreement with the governments of the Baltic states on withdrawal of active duty forces from Estonia and Latvia by August 31, 1994.

Implementation of the 2500 unit voucher component of the

U.S. Governments follow-on Officer Resettlement project began in July; by the end of December, the first 135 voucher purchases had been completed.

Subcontracts for the construction of 1,913 units were signed by the end of December. Subcontracts for the remaining 569 units will be signed by the end of January 1995.

Subcontracts for 1900 of the 2500 units are for existing, partially constructed units in order to minimize costs and cut completion time.

Technical Assistance to Support Major Housing Construction Loan

USAID is providing technical assistance designed to help prepare municipalities in Russia effectively utilize a forthcoming \$400 million World Bank Housing Sector Reconstruction Loan. The Bank loan will be used to fund core capital costs for housing construction, and infrastructure related to housing development and investments in the building materials industry. The loan was authorized in September; it was originally scheduled to be authorized in 1996.

ECONOMIC RESTRUCTURING/FINANCIAL SECTOR REFORM

The U.S. Agency for International Development has obligated a total of \$87 million, including \$55 million in FY1994, and expended a total of \$30 million to help the NIS make the transition from command economies to market based systems. This project focuses on three areas: fiscal sector reform, financial sector reform, and fostering a market environment. Elements of the program are being implemented in coordination with, and through, the U.S. Department of the Treasury.

Fiscal Sector Reform

Improving fiscal management in the NIS, including rationalizing government revenues and expenditures, is key to controlling budget deficits that feed inflation. Since program inception, USAID and the U.S. Department of the Treasury have been providing a range of short and long-term assistance to address key fiscal issues, including tax policy, inter-governmental fiscal relations, tax administration and fiscal policy and budget analysis throughout the NIS.

Treasury provides long-term and short-term assistance to finance ministries and central banks in five main areas: budget policy and management, financial institutions policy and regulation, government debt management and issuance, macroeconomic policy, and tax policy and administration. Countries receiving assistance include Armenia, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia and Ukraine. Treasury currently has seven resident (long-term) advisors in the field, and deploys numerous short-term missions.

USAID has provided fiscal and/or macroeconomic advisors in

Russia, Moldova, the Kyrgyz Republic, Uzbekistan, Armenia and Georgia to deal with such subjects as inter-governmental fiscal relations, fiscal and macroeconomic policy, and tax policy and administration. In addition USAID has provided experts and training to develop fiscal analysis units in Russia and Georgia.

Among planned new activities is an effort to strengthen tax administration in Russia. This would be carried out as part of a larger international donor effort, involving the World Bank, EBRD, the OECD and several bilateral donors. Also under consideration are requests to place economic reform advisors in Russia; advisors for pension analysis and administration in Kazakhstan; budget analysis and macroeconomic policy in the Kyrgyz Republic; and pension fund development in Uzbekistan.

Financial Sector Reform

In all countries of the NIS, sound monetary policy and modern banking methods are badly needed to help meet the financial needs of newly privatized, restructured and emerging businesses. USAID supports the development of market-based financial markets by providing assistance in developing central bank infrastructure and by training in market-based financial services to both commercial and central bankers.

Four senior policy makers from the Ukraine central bank visited the top executives and research departments of several U.S. Federal Reserve Banks as part of work building a modern policy and research unit at the National Bank of Ukraine.

In Russia several hundred bank supervisors from the central bank are being given instruction in the fundamentals of on-site supervision of commercial banks.

Efforts in Ukraine are currently centered on developing a modern economic policy and research unit at the central bank.

USAID has begun the basic work in building a bank supervision program at the Kyrgyz Republic central bank with initial emphasis on on-site monitoring, and developing an interagency economic policy unit.

Five banker training institutes have been established in cooperation with local bankers associations and central banks in Russia (Vladivostok and Novosibirsk), Ukraine (Kiev), Moldova (Chisinau) and Kazakhstan (Almaty). Already over 1,200 commercial and central bank officers and executives have received specialized training in a range of western banking techniques and financial services. Courses are designed to help link local banks to the international banking system as well as to enable banks to serve their rapidly increasing number of private sector commercial customers.

In Kazakhstan work will begin early in 1995 on 1) developing bank supervision capacity at the central bank, 2) developing

sound legal legislation for the financial sector, and 3) developing the research and policy function at the central bank.

New initiatives scheduled for early 1995 in the Kyrgyz Republic include deepening the bank supervision effort to include diagnostics of banks and development of off-site capacity as well as working with Kyrgyz counterparts to improve existing banking legislation.

In Ukraine, infrastructure work at the National Bank will begin to encompass development of a modern bank supervision capacity.

In Moldova, work will focus on the accounting and operating environment of both the central bank and the commercial banks.

All of the above work has been coordinated with the International Monetary Fund and the World Bank, and in several cases forms part of the conditionality for related World Bank Structural Adjustment Loans.

Market Environment

Market transition in NIS countries is impeded by, among other things, the monopolistic structure of industrial production and trade, and the paucity of economists, policy-makers and analysts trained in market economics. USAID programs are designed to reduce monopolistic control and build a cadre of people skilled in market economics.

Support to the Center for Economic Policy Research and Analysis in Armenia is creating local capacity for public policy and economic research to support government and private sector reform initiatives.

In Kazakhstan curriculum and faculty support to the Kazakhstan Institute of Management, Economics and Scientific Research (KIMER) will be creating a new generation of market-oriented economic policy makers. Graduates are being placed directly in key government ministries and the developing private sector.

Assistance in Russia and the Ukraine continues in implementing legal and regulatory reform affecting regulation and competition in public utility/natural monopoly industries; economic education at the undergraduate and graduate level; and training to improve collection analysis and dissemination of economic data to key policy makers.

In Kazakhstan and the Kyrgyz Republic USAID will assist in the development of a commercial law infrastructure protective of basic property and contract rights which is a prerequisite for the successful transition to a market economy.

In response to requests from the Russian and Ukrainian governments, USAID is assisting those nations in their efforts to accede to the GATT/WTO and to reorganize their

trade regimes to enable them to become active participants in world trade under the GATT/WTO. In addition to training courses, we are supporting a full-time GATT advisor at the Ministry of Foreign Economic Relations of Ukraine.

EURASIA FOUNDATION

The U.S. Agency for International Development has obligated a total of \$26 million, including \$18 million in FY1994, and expended \$21 million for a small grants program administered by the Eurasia Foundation in the NIS. The Foundation was established to complement U.S. Government direct assistance to the NIS by providing a rapid-response, flexible, on the ground instrument for making a large number of relatively small grants in support of political reform in the NIS. Its key objectives are to reach a wide range of groups quickly with targeted assistance and to increase the numbers and diversity of groups receiving USG and private funds, particularly in the areas of private sector development, public sector reform, and media and communications. To facilitate outreach to NIS organizations and provide for easier monitoring and evaluation of grants, the Eurasia Foundation opened field offices staffed by Americans and local hires in Moscow, Kiev, Tashkent, Saratov and the Russian Far East.

Since beginning operations in April 1993, the Eurasia Foundation has awarded over 200 grants for technical assistance, training, educational activities, and policy research to American organizations with partners in the NIS (83 percent) and directly to NIS organizations (17 percent).

Budgeting for this project of at least \$10 million in FY1995 is under discussion.

On average, 25 grants totaling \$1.1 million are made per month.

Grants have been made to organizations such as the American Institute of Business and Economics, the INET Foundation, the IOWA/Stavropol Sister State Committee, the Association of the Bar of New York City, the City of Nizhny Novgorod, East-West TV, Foundation for Global Community, and the American University of Armenia.

Besides awarding grants, the Eurasia Foundation also makes program-related investments (PRIs). PRIs are recoverable grants or loans at below-market rates made to further the development of small businesses. Unlike a grant, the PRI forces the recipient business to be fiscally responsible with its funds because terms for repayment must be met. Additionally, it allows the Foundation to make grants to commercial organizations in cases where a profit might be made, but the grant is nonetheless reform-oriented.

NIS EXCHANGES AND TRAINING PROJECT (NET)

USAID has obligated a total of \$120 million, including \$95 million in FY1994, and expended a total of \$68 million to support exchanges and training programs through the NIS Exchanges and Training (NET) Project. In 1994, a total of

4,213 NIS citizens received training through the NET Project, which supports the transition of NIS countries to participatory democracy and free-market economics through training programs that are predominantly U.S.-based. This training effort supports and is closely coordinated with USAID's sectoral activities in the NIS and targets those private- and public-sector leaders who are attempting to implement structural change and develop a market economy. In addition, the project assists in initiating linkages between NIS and U.S. educational institutions and professional associations. NET programs expose NIS citizens to U.S. management techniques and free-market and democratic principles through a combination of classroom training and hands-on experience. To the extent possible, these programs are combined with contacts with U.S. practitioners and/or internships in U.S. public and private sector organizations. Moreover, each program is designed to include exposure to U.S. community-based activities, including the operations of federal, state and local governments and non-governmental organizations and cultural institutions. Follow-on training in the NIS is provided, as necessary, to reinforce and evaluate training acquired in the United States. Key components of the NET Project include the following:

Short-Term Training

Highly focused short-term (4- to 6-week) training programs are targeted at private- and public-sector NIS leaders and professionals who are in positions to effect rapid change. Participants are exposed to the necessary skills and attitudes, and are provided with "hands-on" practical experience needed for solving short-term problems, affecting business- and market-related policy issues and guiding their nations' political and economic transition. Short-term training providers include U.S. universities, other educational and training institutions, private businesses and training centers associated with state, local and federal government, e.g., the U.S. Bureau of Labor Statistics, the Internal Revenue Service and the Federal Reserve.

Examples of NET short-term training programs are as follows:

Armenia: Power company management, management for public health, construction management and finance, women's organizational management.

Azerbaijan: Environmental NGO study tour, NGO development/refugee camp management.

Belarus: Agricultural reform and private farming, business management training, privatizing power.

Georgia: Measurement of wages, media training, port management, customs training.

Kazakhstan: Developing public understanding of economics, national budgeting and monetary policies, bank restructuring, tax administration.

Kyrgyz Republic: Market-based agriculture, public financial

management, human rights and democratic development.

Moldova: Farm bureau management, NGO strengthening, the functioning of the national treasury.

Russia: Agricultural policy development, small business development, securities market development, environmental policy and programming, defense conversion, jury trial procedures, non-governmental organization (NGO) management, health insurance/health finance.

Tajikistan: Economic restructuring for policy makers, tax reform and policy, management of welfare and pension systems.

Turkmenistan: Portfolio management and appraisal, restructuring the private-sector economy, labor market and free-market labor laws.

Ukraine: Clean coal studies, tax administration, disaster relief management, municipal finance, business consulting skills.

Uzbekistan: Market-based agriculture, public financial management, human rights and democratic development.

Long-Term Training

A limited program supporting long-term training is also included under the NET Project. This program provides degree and non-degree graduate-level education to complement ongoing USAID and other donor technical assistance efforts.

Two Russian participants have completed their second year in the PhD program in economics at Harvard University.

A physician from Georgia is completing a one-year program at Emory University in disease surveillance and epidemiology.

NIS Partnerships/Linkages Component

Through this initiative, the impact of short- and long-term training will be reinforced through the fostering of sustainable U.S.-NIS partnership relationships between educational and technical institutions and professional associations. NIS recipient institutions will benefit from the transfer of practical skills, on-the-job training and U.S.-sponsored internships.

In 1994, the NET Project continued to provide funds to Pepperdine University for short-term programs in defense conversion for Russia.

The NET Project also funded Washington State University's linkage with a consortium of Russian universities to provide training in several economic sectors, including agriculture.

NET Project Success Stories

Business Development:

The Kyrgyz Republic's city architect of Bishkek, having completed his NET training, is now in the process of establishing a valuation department to determine property values through market indicators.

NET training of two groups of Russian industrialists to develop business plans, combined with subsequent follow-up with prospective U.S. partners, has resulted in 10 joint ventures to date.

Having learned through NET how small-business development centers work in the U.S., a Russian lawmaker is now introducing legislation to establish such centers in his region.

Economic Restructuring:

Following a NET Project course on tax policy, a Kazakhstani parliamentarian spear-headed a week-long seminar to demonstrate to other parliamentarians the importance of overhauling tax codes and introducing equitable laws governing foreign and domestic investment.

The head of the tax inspectorate in Crimea, having completed his NET training, has been actively involved in upgrading the professional training of local tax inspectors through conferences and workshops. He has also begun a taxpayer education program.

Upon their return from management training at the Internal Revenue Service in Washington, Ukrainian tax officials reorganized the Ukrainian Tax Directorate along functional lines in order to achieve improved management and increased revenues.

A Kyrgyz banker attributes improved operations of his bank to a combination of NET training and USAID technical assistance.

Mortgage bankers utilized their NET training and training materials to develop two courses in mortgage banking for the Russian Mortgage Banking Association. The courses were quite well-subscribed.

After her NET training, the president of the East-West Network of Business Women offered women's professional development and entrepreneurship development workshops in various regions of Russia.

Democratic Initiatives:

Russian judges trained in the jury trial system conducted their first jury trials after returning to Russia. One participant commented, "For the first time in my life, I was able to see how a jury trial works and it was not just from an American movie."

Upon returning to Kazakhstan, a group of Kazakhstani journalists who had visited a number of U.S. press clubs during their NET training opened the Almaty Press Club, which has received much publicity.

PVO/NGO Development/Management:

The director of a Ukrainian health NGO utilized her training in financial sustainability techniques to put her organization on a sound financial footing and increase health services.

The president of the Moscow Association of Parents and Children with Hearing Disabilities learned how to undertake fund-raising efforts for his organization. He is grateful to the NET Project for showing him how community resources can be mobilized to address critical issues and needs.

Energy/Environment:

Azerbaijani environmentalists developed close ties with their Russian counterparts during U.S. training and agreed to establish an E-mail network dedicated to NIS ecological issues.

A water management seminar for the five Central Asian republics resulted in regional governments agreeing to hold regional conferences in water management, information management and agriculture.

Health/Population:

Russian NET participants, having observed how family planning centers work in the U.S., have established voluntary family planning centers in Russia. These trainees also utilized their training and course materials to conduct training seminars for specialists from 64 family planning centers throughout Russia.

Uzbek participants trained in lactation management programs have started "well baby" clinics and have been instrumental in formulating the Uzbek Ministry of Health's breast feeding policy and infant care programs.

A Georgian physician who received NET training in public health with a focus on drug policies is now acting as staff advisor to the Cabinet of Ministers and has been tasked with reviewing three draft laws on a national drug policy.

A vice president of a Russian insurance company re-organized the company based on information covered during a NET health insurance course.

Agriculture:

After completing his NET training, the head of the Belarusian Agricultural-Manufacturing-Scientific Union set up seven new farmers' agricultural production programs on corn, buckwheat, rape seed, potatoes, lupin, processing of agricultural products and honey production.

A key representative of the Ukrainian Farmers Association writes a column entitled "Good-bye, Dear America" in a weekly newspaper for Ukrainian farmers, thus sharing the benefits of his NET training with his colleagues.

RUSSIA ENERGY AND ENVIRONMENTAL COMMODITY IMPORT PROGRAM

USAID budgeted \$90 million in FY1994 for a Commodity Import Program (CIP) to demonstrate U.S. equipment and technology that can help Russia address serious problems in the energy and environment sectors. Russia suffers from an inefficient, outdated energy industry characterized by large global warming emissions, massive waste, flaring of gases in oil production, low productivity and a high incidence of accidents in coal mines, and a host of serious pollution problems. The primary purposes of the CIP are to transfer specific technologies to help Russia improve energy efficiency in an environmentally sound manner, to improve the capacity of its environmental agencies, and to provide equipment to improve the health and safety of coal miners. The CIP is an important element of the Vice President Gore-Prime Minister Chernomyrdin Commission on Joint Technological Cooperation.

The bilateral agreement initiating this program was signed December 16, 1993. The program is administered by a joint Russian-American Secretariat under the supervision of a joint Russian-American Steering Committee. The USAID office in Moscow is represented on the Steering Committee.

The CIP has generated a high level of interest in the Russian energy and environmental sectors. The solicitation attracted over 200 requests for equipment worth \$850 million, almost ten times the amount of funds available under the program. The Steering Committee has approved 50 projects worth about \$77 million relating to energy efficiency, environment and coal mine safety. Technical offers of equipment for the first tenders are now being reviewed. The bids for these tenders will be opened in February-March 1995 and the first equipment should be in place by mid-1995.

These projects will provide an excellent demonstration opportunity for the application of new technologies in over 30 different locations nationwide. The awards will be a combination of equipment provided as grants to non-revenue generating organizations and equipment provided on a cost-sharing basis to Russian commercial organizations who will use the imported equipment to directly enhance their revenues. These latter organizations will pay 70 percent of the costs in local currency. Of the approximately \$77 million allocated, \$52.7 million (68 percent) was in the form of grant and \$25.2 million (32 percent) required the 70 percent payment.

Following is a summary of the areas in which allocations of equipment have been made, the uses to which the equipment will be put, and the percentage of the total allocations made to that area:

Natural Gas: GAZPROM controls natural gas production and transmission over a vast area. Allocations have been made which will improve the efficiency of transmission and reduce methane emissions. (Twenty percent of total allocations.)

Oil: The oil sector is particularly important because large quantities of associated gas and natural gas liquids in the oil fields are flared, resulting in energy waste and increased greenhouse emissions. Loss of oil from the pipelines is also reported to be very high. Allocations have been made which will finance equipment for the productive use of flared gas and liquids, pipeline repair, oil spill clean-up, and automatic controls. (Nine percent of total allocations.)

District Heating: The district heating systems service almost all buildings in urban areas and smaller towns, usually with natural gas as the energy source. Audits have shown significant opportunities for improving efficiency levels. Allocations have been made which will finance audit and diagnostic equipment, automatic measurement and control systems, burner controls, and other energy saving devices. (Nine percent of total allocations.)

Power: Allocations have been made in this area for energy audit and environmental monitoring equipment (including mobile audit trailers), measurement and testing equipment, computer-aided design systems, software and hardware for energy use analysis, automated controls for industrial boilers, and modular internal combustion engines to utilize methane from coal mines. (Twelve percent of total allocations.)

Coal Mining: The coal mining industry suffers from antiquated equipment resulting in low productivity and unsafe conditions. Allocations have been made to finance equipment for health and safety for miners, rescue, measurement and communications, and methane usage. (Twelve percent of total allocations.)

Environmental Protection: Environmental monitoring of air, water, and toxic wastes is severely hampered by the lack of modern technologies and equipment. Allocations have been made for monitoring and measuring of ambient air and water quality and pollutants (including mobile air monitoring stations), automated laboratory equipment for analysis, computer hardware and software for data analysis, GIS (Geographic Information Systems) and information management, and oil skimmers. (Thirty-eight percent of total allocations.)

UNITED STATES INFORMATION AGENCY (USIA)

During FY1994 and the first quarter of FY1995, the FREEDOM Support Act-funded USIA Exchanges Program brought to the United States over 7,200 NIS grantees, all of whom were selected through open, merit-based competitions. In response to increased funding levels in FY1994, USIA stepped up even further the tempo of its educational, technical and professional programs to handle larger numbers of exchange participants. In addition, USIA devoted considerable attention to the creation of electronic (e.g., Internet) alumni networks and the improvement of evaluation mechanisms. As in previous years, USIA's FY1994 programs featured extensive cost-sharing by grantee organizations. USIA continued to rely heavily on volunteer support from

experienced, community-based exchange organizations such as Sister Cities and the National Council for International Visitors (NCIV). USIA also continued to work with a number of non-governmental organizations (NGOs), including the International Research and Exchanges Council (IREX), the American Council of Teachers of Russian (ACTR), the Institute of International Education (IIE), and Youth for Understanding (YFU).

In FY1994, USIA initiated new programs in the area of civics education and social science curriculum reform. Recognizing the importance of entrepreneurship in establishing a market-oriented economy, USIA expanded its "Business for Russia" exchange program, which imparts business skills to Russian small businessmen during month-long internships throughout the United States. To date, 350 Russians have traveled under this program, and USIA anticipates a total of 1000 Russian entrepreneurs traveling to the United States in FY1995 for internships with American businesses. USIA has selected strategic regions in Russia from which to select participants so that a synergy is created among grantees upon their return to Russia. USIA has also launched new initiatives to support independent media in the NIS. Acknowledging the critical role of NIS legislatures in building democracy and supporting reform in the NIS, USIA has expanded its program of intensive, short-term parliamentary exchanges to encompass greater numbers of NIS parliamentarians and their staffs.

USIA FREEDOM Support Act-Funded Programs

Secondary School Exchanges

During the 1994-95 academic year, USIA hosted a total of 6,725 participants under the Secondary School Exchange Program. Because of the sheer volume of participants, the wide-sweeping recruitment campaigns, and the interest and involvement of local communities, the Secondary School Exchange program has reached just about every corner of the former Soviet Union. The enthusiastic involvement of the NIS Ministries of Education has had a largely positive impact as well. After some negotiating and convincing, the Ministries have accepted openly advertised, merit-based competition as the only means of selecting participants for this program.

The Secondary School Exchange Program consists of the following four components:

The Academic-Year Program: Following a far-reaching recruitment effort organized by ACTR, YFU, and World Learning, NIS students were selected on the basis of merit for full-year study programs in the United States. At the beginning of the 1994-95 academic year, a total of 1,425 NIS students arrived in 800 host communities spread across 46 states. At some point during the school year, all of the students visit Washington, D.C., for a historical look at our nation and its political development.

Students who returned home from the 1993-94 program have formed alumni groups and have disseminated many of the

ideas, skills and insights they gained in the United States. These include the creation of student interest groups, the concept of volunteerism, and teaching their peers the English language or U.S. history. Thanks to their enhanced English skills and knowledge of the United States, many former exchangees have already found employment with multinational companies, government agencies and non-profit organizations.

The Academic Studies Semester: During the last year, 520 NIS students came to the United States and 305 U.S. students went to the NIS on the semester-long Academic Studies Program. Participants attended school, interacted with host country peers, and lived with host families. Similar to the Academic Year Program, NIS students have an opportunity to visit Washington, D.C., and participate in educational and cultural enhancement activities.

School Linkage Program: In 1994, approximately 1,500 educators and 4,000 students from over 300 schools participated in exchanges through the linkage of secondary schools in the United States with partner schools in the NIS. This program seeks to promote ongoing ties between the educational institutions and their communities at large, and to create long-term institutional linkages between our countries. Electronic communication is fast becoming an essential component of the partnerships. For example, 17 schools in the Tennessee Valley were linked up with 17 schools in the Rostov region and are now teaching their students how to exchange environmental data on the Internet.

Thematic Programs: Twenty-three U.S. organizations were awarded grants in 1994 to conduct intensive, highly focused thematic exchanges for over 1,000 young people (600 from the NIS and 400 from the United States). Typical topics for the 4- to 8- week programs are youth leadership, volunteerism, agriculture, environmental education and business. In many cases, these programs have fostered long-term U.S.-NIS institutional linkages.

Undergraduate Exchanges

Designed to introduce the future NIS leaders to the U.S. system of higher education, democratic values, and the principles of free market economics, the FY1994 Undergraduate Exchanges Program provided 460 NIS students with fellowships for one year of undergraduate study at colleges and universities throughout the United States. The program, which has a \$11.5 million budget, focuses on the fields of agriculture, business, journalism, computer science, government, political science, economics, education, English as a foreign language, and sociology. Recruitment, merit-based selection and placement in U.S. institutions of higher learning is carried out by a consortium consisting of ACTR, YFU, IIE and the American Collegiate Consortium (ACC).

Most of the students in the Undergraduate Exchanges Program participated in orientation programs that helped them adapt to the U.S. academic system. In 1994, the majority of NIS participants were placed at U.S. colleges, community

colleges and universities that had heretofore been under-represented in international academic exchange programs and had not hosted students from NIS countries. Participants also benefited from month-long practical internships in their fields of study, a pre-departure workshop/evaluation and extensive leadership training with the goal of preparing them to use their new knowledge and skills upon returning to their home countries to assist in the societal and economic transformation process.

Top-Up Program

The Top-Up Program is a new USIA exchange program, designed to meet the special circumstances of NIS students. The program provides individual grants of up to \$10,000 to NIS students who have been accepted into American universities but are unable to attend because they lack financial resources. This program is exceptionally cost-effective, because U.S. universities must provide full tuition, while the USIA grants cover living expenses and/or airfare. USIA obligated \$5.7 million for grants to approximately 650 undergraduate students and \$4.8 million for approximately 500 graduate students in the fields listed under the "Undergraduate Exchanges" section, to be implemented over the course of three years. Participating institutions are spread across 43 states, including Alaska and Hawaii, and range from Ivy League universities to large land-grant universities to small private colleges. Also funded under this category is general support for more than 30 USIA educational advising centers spread throughout the NIS.

Graduate Exchanges

USIA obligated \$18.8 million for approximately 360 one- or two-year scholarships for students from all 12 of the New Independent States to study at 69 U.S. universities in 30 states. Graduate students and young professionals were selected through an open, merit-based competition for study in business administration, economics, law, public administration, public policy, educational administration, journalism/communications and library/information science. Recruitment, selection and placement were carried out by a consortium of three organizations: ACTR, IREX and the Soros Foundation.

Unlike USIA's regular base-funded graduate exchange program, the NIS Graduate Exchanges Program gives each participant an opportunity to complete a three-month internship appropriate to his/her field of study, as well as a chance to attend a leadership seminar. Many USIA graduate exchangees have secured internships with large U.S. companies, such the 3M Corporation in St. Paul, Minnesota, and report that the experience teaches them the skills they need to survive and compete in Russia's new economic environment. USIA has also added a new Congressional Fellowship component to the Graduate Exchanges Program. After completing a nine-month academic program, exchangees with an interest in law, public administration or public policy can intern in Congressional offices for three months.

Teacher Exchanges and Faculty Development

In FY1994, USIA launched a number of new initiatives designed to develop the knowledge base and skills of young NIS teachers and faculty, promote curriculum development, and promote overall educational reform in NIS schools and universities.

Academic-Year Teacher Exchanges (RUSTEP): This new program supports educational reform in Russia by providing Russian educators opportunities to teach in the United States for one year at the secondary level and thus to develop knowledge and skills reflecting democratic educational approaches and methods. Twenty-four Russian educators are currently in the United States developing new curricula and textbooks which they will use upon their return to Russia. To introduce new information technologies and promote long-term communication, the teachers have been provided with computers and e-mail connections, which they will take with them at the close of the year for use at their home institutions. In addition, four U.S. educators are teaching in Russian schools, sharing U.S. educational philosophies, methods and curricula with local faculty and students. The RUSTEP Program was budgeted \$1,000,000 for 29 participants in FY1994.

Teaching Assistantships (RTAP): This experimental program was designed to advance educational reform in Russia by placing 57 young Russian social science educators at U.S. colleges and universities to serve as teaching assistants for a semester or academic year. The educators receive practical experience in U.S. teaching methods and curricula, and are enrolled in courses to broaden their knowledge and skills in their fields of specialization, and learn about U.S. institutions, culture and society. The teachers have received personal computers, which will be transferred to their home schools on their return and reconnected to an electronic network, so that they and their fellow faculty can continue to benefit from their U.S. experience. While this experimental program was largely successful, it will not be repeated because the program's principal target grantees -- young social science educators -- were found to have insufficient English to participate effectively in the program. As it turned out, most of the grantees chosen were English instructors with secondary teaching responsibilities in the social sciences. Another new program, the Social Science Curriculum Development Program (see below) is being modified to incorporate the objectives of this program.

Russian Junior Faculty Fellowships: The Junior Faculty Development Program is a new initiative designed to promote educational reform and the development of new curricula in targeted academic fields linked to democracy-building and the creation of a free-market economy in Russia. This program, which features a merit-based, Russia-wide, openly competitive selection process, had a budget of \$2.25 million in FY1994 and enabled 84 promising young Russian faculty to lecture and consult for a full academic year at U.S. universities in fields such as business, law, economics, public policy and administration, and educational administration. Upon returning to their home institutions in June 1995, program alumni will be able to use Internet

and e-mail to continue their dialogue and to exchange ideas about curriculum development and educational reform with their U.S. and Russian colleagues.

Institutes in Civics Education and the American Political System for Young Faculty and Teacher Trainers: These university-based, 4- to 6-week institutes introduce current approaches in civics education and political science and provide useful educational models for NIS educators to develop national and local curricula. In FY1994, USIA obligated \$400,000 for a total of 33 participants. With these funds, USIA conducted a summer institute on the U.S. political system at Southern Illinois University for 18 Russian political scientists, and another institute at Russell Sage College's Council for Citizenship Education, which brought 15 Russian educational leaders to the United States for a civics education program entitled "Foundations of Democracy." The latter program was very successful, and will be used as a basis for the future expansion of civics education programs.

Social Sciences Curriculum Reform for Russian Faculty: These semester-long or academic-year fellowships for junior faculty teaching in the social sciences or law incorporate individually tailored programs at major U.S. research and teaching institutions. These programs provide exposure to subject matter, materials acquisition, and scholarly networking aimed at curriculum reform. In FY1994, USIA allocated \$300,000 for 15 fellowships. This program was a new initiative which will be expanded in 1995. An additional \$100,000 was allocated under this program to support the development of a Russian-language Encyclopedia Britannica.

Visitor/Training Program for Russian School Administrators: This specially-tailored, 30-day educational program in the United States for 50 Russian secondary school teachers and administrators was conceived and designed in collaboration with Russian Minister of Education Yevgeniy Tkachenko. Minister Tkachenko, who had previously been to the United States on a Freedom Support Grant, had returned to Russia committed to decentralizing Russian education by increasing teacher and school management responsibilities and giving educators a greater role in formulating national curriculum guidelines. USIA and the Minister selected ten delegations from Russian regions which have a strong potential to implement reforms. In the United States, the delegations studied gifted and talented programs, curriculum development, teacher training and multi-cultural education. This program will be repeated on a smaller scale in FY1995.

Research Scholar/Faculty Exchange: This program supports democratic development in Russia by enhancing the capacity of advanced Russian graduate students and post-doctoral scholars to conduct high quality research in areas of critical importance in the social sciences and humanities. This program aims to improve university-level instruction for future generations of Russians. This program mirrors the Regional Scholars Program (a USIA base-funded program carried out by IREX, ACTR and the Kennan Institute) but is more sharply focused to reflect the goals of the FREEDOM Support Act.

With an FY-1994 budget of \$2 million, 127 Russian scholars from over 40 cities in Russia were selected in a merit-based, open competition to receive research fellowships of three to nine months at leading U.S. universities, research institutes and think tanks. Program participants also received in-depth instruction in electronic mail and the use of Internet so that they will be able to communicate with colleagues and advance the scope and impact of their research upon returning to Russia.

Exchanges for Entrepreneurs

Under this new USIA program, Russian entrepreneurs, local government officials and media managers travel to the United States for a 5-week internship program with homestays. To maximize information sharing and to help create an environment conducive to business, USIA has targeted key Russian cities and regions. In 1994, the Business for Russia Program brought a total of 350 Russian entrepreneurs to 11 U.S. communities for five-week, hands-on business training programs. A few local government representatives from each of the five Russian regions targeted for this program participated in similar internships in the same U.S. communities in order to understand their role in developing a sound infrastructure to support the burgeoning free-market economy. This program was conducted in cooperation with the Russian Government, which provided the participants with orientation and follow-on programs in Moscow.

In addition to providing substantive training directly relevant to the development of the participants' businesses, American business hosts have discovered ways to expand their own markets to include their new Russian partners. Some examples of these new relationships include the following:

A participant from Samara returned to Charlotte, North Carolina, a few weeks after completing his internship at Guaranteed Financial Solutions, Inc. and purchased from them \$75,000 worth of ATM machines for banks in Togliatti.

"Sallywags," a clothier based in Jackson, Mississippi, is now importing wool and knitted fabrics from a company based in Kolomna, Russia, and run by a former Business for Russia participant.

The Samara Farmers Fund, which is headed by a Business for Russia participant, the Future Farmers of America (FFA) and the Samara region governor's office are in the process of establishing an FFA representation in Samara, as well as farmer educational centers in 26 rural districts.

The head of a computer software business based in Dolgoprudny, Russia, who interned in Silicon Valley under the "Business for Russia" program has signed a contract with Addison-Wesley to provide educational software.

The Business for Russia Program will be expanded in FY1995 to include 1,000 Russian interns and more than 24 U.S. host communities.

University Partnerships

Based on USIA's University Affiliations Program, this program seeks to foster curriculum reform, updating of teaching methodologies, and modernization of the administrative structure of NIS institutions of higher education, in an effort to prepare future generations of students to work towards the development of market-oriented economies and democratic government in their countries.

University Partnership grants involve exchanges of faculty, staff and graduate students; placement of long-term U.S. academics-in-residence in NIS universities; development of new teaching materials; and acquisition of computers and other equipment to support grant activities and foster long-term contact. On average, American partner universities and other non-governmental organizations contribute 50 percent in matching funds to support each linkage.

In FY1994, USIA awarded two-year grants of up to \$300,000 to 16 U.S. colleges and universities forming partnerships with Russian counterparts. Ten of the 16 partnerships were in business and economics. Seven three-year grants were awarded in FY1994 for other NIS countries: one each for Armenia, Belarus, Kazakhstan and the Kyrgyz Republic, and three for Ukraine. Five of the seven partnerships were aimed at developing business/management programs at the recipient universities.

Following Vice President Gore's visit to the Kyrgyz Republic in December 1993, the Coordinator of U.S. Assistance to the NIS allocated \$500,000 in FY1994 Freedom Support Act funds for the development of a multi-discipline Kyrgyz-American School at Kyrgyz State National University.

Freedom Support Grants and Parliamentary Exchanges

In FY1994, USIA allocated \$4 million to continue the highly-successful Freedom Support Grant Program for mid- to senior-level NIS officials. USIA allocated a portion of these funds for parliamentarians and their senior staff members. This program, which closely resembles USIA's International Visitor program, brings high-level NIS officials to the United States for up to 3 weeks on a wide variety of substantive programs supporting democratization and economic reform. During the past year, USIA programmed a total of 400 Freedom Support Grantees, of whom about 60 percent were from Russia. Three examples of Freedom Support Grant programs follow:

In September-October, 1994, a Ukrainian parliamentary delegation headed by Speaker Oleksandr Moroz spent ten days in the United States under a Freedom Support Grant. They met with Vice President Gore and other high-level administration officials, as well as members of Congress. Soon after the visit, President Kuchma's progressive economic reform package and accession to the Non-Proliferation Treaty won passage in the Supreme Rada, even though some analysts had predicted that President Kuchma would not win such approval due to the opposition of a heretofore recalcitrant Speaker Moroz and an overwhelmingly

conservative Supreme Rada.

Senior officials from the administrative office of the President of Russia visited the United States on two occasions to review the U.S. federal model of oversight and inspection. As a result of these two Freedom Support Programs, which exposed the groups to the structure of the U.S. presidency and the procedures for ensuring the fiscal responsibility of recipients of federal funding, the Control Department of the Russian Federation established a new Inspectors General Corps to combat corruption. The members of these delegations stated on several occasions that their visits to the United States significantly influenced the restructuring of their department.

Freedom Support Grant programs provided opportunities for two delegations of twenty-one Constitutional and Supreme Court judges from the Kyrgyz Republic and Kazakhstan to examine the U.S. judicial system. Working cooperatively with the American Bar Association's Central and East European Law Initiative (ABA/CEELI), USIA's Office of International Visitors designed these programs to expose members of the evolving constitutional and supreme courts of Kazakhstan and the Kyrgyz Republic to the American legal system. The judges studied the many facets of local, state and federal judicial systems, paying particular attention to the role of an independent judiciary, separation of powers and individual rights. Highlights of the programs included a meeting with Justice Scalia, observation of Supreme Court and lower court proceedings, and discussions with Supreme and superior state court judges. The participants have pledged to make use of the insights gained from these experiences in reforming the legal systems in their countries.

Federalism/Local and Regional Government:

USIA is currently conducting a number of new programs to introduce Russian local and regional government officials to their American counterparts, and to foster the development of effective, democratic, pro-business local and regional governments in Russia.

USIA gave a grant to the Institute for Training and Development to conduct a six-week program providing 12 local government officials from the Nizhny Novgorod region of Russia exposure to the workings of the executive and legislative branches of local and state government in Northampton and Amherst, Massachusetts. This program contributed to a number of important developments in Nizhny Novgorod:

After his return to Russia, program participant Ivan Karnlin was chosen to be the President of the Nizhniy Novgorod City Duma.

Program participant Alexander Smirnov is currently the Director of Public Health for Nizhny Novgorod. At Smirnov's initiative, Governor Nemtsov started a major legal and medical reform of the Nizhny health care system. Smirnov has signed several contracts with American firms to evaluate and

upgrade the system oblast-wide.

Program participant Alexander Shavin is the Chief Tax Inspector of Nizhny. After returning to Russia, he started computerizing Nizhny Novgorod's tax system. Before his participation, his office had one computer; now his office possesses over twenty computers and tax collection has become completely computerized.

Evaluation

This year, USIA put aside FREEDOM Support Act (FSA) funds to conduct independent evaluations of its FSA-supported exchanges programs. The first of the series of evaluations, contracted to Pelavin Research Institute (PRI) of Washington, D.C., has been completed. PRI surveyed 103 Russians spending between one month and two years in the United States on various USIA-sponsored programs. The grand majority of respondents were participants in USIA's five-week business internship program. Not surprisingly, the primary objective of 87 percent of those responding was to acquire business skills. The primary objectives of the other responders were either to learn about democracy and free-market economics, or to achieve personal growth and improve their professional skills. The survey revealed that most respondents felt their program was effective or very effective in helping them meet their primary objectives. This first evaluation indicated that the USIA programs surveyed are largely on target, but also suggested some design improvements, which are currently being studied. Subsequent studies will attempt to assess the strengths and weaknesses of other USIA FSA-funded exchange programs through the use of focus groups and representative surveys of exchangers.

Media Training Programs

Russia: In FY-93, \$2 million in FREEDOM Support Act funds was set aside for media development programs to be carried out in Russia. The program design consists of the following five parts:

USIA Professionals-in-Residence Program: Two consecutive grants for 150-day Professionals-in-Residence (PIR) programs were designed for the Russian American Press Center in Moscow at a cost of \$50,000 each. Michelle Carter, the first of USIA's FSA funded PIRs, began her residency in January, 1995.

International Media Fund: USIA granted a total of \$850,000 to the International Media Fund (IMF) for the following projects:

In-Country Workshops: \$300,000 was obligated for eight media workshops to be conducted in-country by the IMF. Each of the workshops was supplemented by consultations by U.S. experts with individual Russian newspapers. The workshops were conducted in Nizhny Novgorod, Perm, Yekaterinburg, St. Petersburg, Vladivostok and Khabarovsk, and dealt with newspaper management, advertising, taxes and legislation, forming newspaper associations, editorial management, and

issues of circulation and distribution. The workshops were well-attended, and participants evaluated them as being extremely useful. Participants particularly liked the practical nature of the discussions.

Equipment Donations: USIA has committed \$250,000 for equipment donations -- mainly desk-top publishing equipment -- to selected Russian newspapers. Four recipient newspapers have been chosen thus far. IMF expects to be able to donate equipment to up to 13 newspapers with this grant. The average equipment donation will be worth about \$20,000. One newspaper has already received the first donation.

University Partnerships: \$300,000 was obligated for a linkage program between an American university and a Russian university to develop a modern journalism curriculum and exchange faculty and media experts. Some equipment will be donated to the Russian university under this grant. IMF and USIS-Moscow have chosen the journalism schools of University of North Carolina and Ural State University in Yekaterinburg for this partnership. Under the plan, a visiting professor from UNC will teach at Ural State and help them develop a modern journalism curriculum. In addition, a series of media specialists will rotate in and out of Yekaterinburg on practical topics such as advertising, graphics and broadcasting. Since Ural State already has some TV equipment, IMF will donate some radio equipment for training purposes. In addition, USIA bought (from base funds) a \$4,400 core collection of journalism textbooks for Ural State University.

U.S.-Based Workshops: USIA is conducting three two-week long training workshops in the U.S. on the business aspects of media development. A few days of each of the seminars will be spent in local television/radio stations and newspapers. The first two workshops, on sales and management issues in television and radio, were conducted in May and September, 1994. Both workshops stressed American station management and the links between marketing, sales and profitability.

U.S.-Based Internships: Under this program approximately 20 Russian journalists will travel to the United States for three-month internships at news media outlets. The first group of nine arrived in the United States in January 1995. Russian American Press Center/New Media Centers: USIA gave a \$600,000 grant to New York University for the establishment of three new media centers modeled on the highly successful Russian American Press Center (RAPIC) in Moscow. The new centers were opened in Nizhny Novgorod, St. Petersburg and Novosibirsk. In the first two years of its operation, RAPIC estimates that it has helped Russian journalists research close to 10,000 stories. RAPIC's many services include a bilingual reference library; numerous on-line and CD-ROM databases such as Lexus/Nexus, Facts on File News Digest, and Russian databases such as Rosinform Statistical Database, Glasnet, and the Federal News Service Kremlin Package. In addition, RAPIC hosts daily seminars on topics such as nuclear proliferation, economics and journalism education. RAPIC provides individual consulting

services on request for media business managers and has an active outreach service which provides key media and government contacts with topical information packages consisting of recent news and journal articles.

Kyrgyz Republic: In FY1994, \$500,000 was set aside for Kyrgyz media development programs. The programs consist of two professionals-in-residence, in-country workshops, U.S.-based workshops and internships, a professional development program and a grant for institutional linkages.

Professionals-in-Residence: USIA allocated \$100,000 for two journalism professionals to provide consulting services and conduct seminars in the Kyrgyz Republic for 150 days each. The venue for the residencies -- the Media Center in Bishkek -- is currently being established (see below). The first residency will begin as soon as the Center is opened.

In-Country Workshops: USIA allocated \$40,000 for a training program in the Kyrgyz Republic for 20 journalists and media professionals from throughout the country. University of Kansas was awarded a \$38,583 grant to complete this project. Participant selection and logistical planning began summer 1994, and seminars will start spring 1995. Another \$60,000 was set aside for three in-country workshops for 20-30 journalists each on journalistic techniques, the role of the free press in a democratic society, the business of media, and information gathering in specific fields.

U.S.-Based Workshops/Internships: USIA originally allocated \$125,000 for U.S.-based workshops and internships. \$60,000 was obligated to USIA's Media Training Division for one workshop and follow-on U.S. internships for approximately 10 Kyrgyz journalists. The workshop/internship program began in January 1995. Another grant of \$65,000 was to be obligated for other U.S.-based internships. Instead, USIA amended its grant to the National Forum Foundation to shift funding to commercial space, equipment and data bases for the Bishkek Media Center (see below).

Professional Development Year Program: USIA's Media Training Division is conducting year-long professional development programs for two Kyrgyz journalists. Each of the journalists will spend one academic year at a U.S. university in a graduate-level journalism program, and will also intern for a month at a local U.S. media outlet. USIA has allocated \$25,000 for these two programs.

Institutional Linkages: USIA's Office of Citizen Exchanges is administering a \$215,000 grant that has been awarded to the National Forum Foundation for the creation of a media center in Bishkek, Kyrgyz Republic. The center will provide services similar to those offered by the Russian American Press Center in Moscow. (see above description).

USDA TECHNICAL ASSISTANCE PROGRAMS FOR THE NIS

The U.S. Department of Agriculture (USDA) was involved in a number of technical assistance and training programs in the NIS. Some of these programs were funded under USDA's Emerging Democracies Program and are discussed in a later

section of the Annual Report. The three programs described below are funded under the FREEDOM Support Act.

Cochran Fellowship Program: USDA's Cochran Fellowship Program provided short-term agricultural training for NIS agriculturists. Month-long training programs were conducted in the United States for selected senior- and mid-level agricultural specialists and administrators.

In FY1994, the Cochran Fellowship Program received \$2.5 million in FREEDOM Support Act (FSA) funding. Although \$1 million of this amount was not available until late September, USDA was nevertheless able to provide training to 69 NIS agriculturists using FSA funding. (An additional 105 participants were trained using Emerging Democracies funding, bringing the total number of FY1994 participants to 174.)

Cochran training programs conducted in FY1994 covered a wide range of agricultural topics, including agricultural policy, land tenure, agricultural law, agricultural finance and banking, food processing and marketing, confectionery and baking, international trade, agricultural extension, grain marketing, dairy and poultry marketing, general agribusiness management, and high-value agricultural products.

The Cochran Fellowship Program has been widely praised by NIS officials, U.S. embassies throughout the NIS, and by U.S. agricultural associations and agribusinesses, many of which have directly benefited from their involvement in the Cochran Program. For example, a returning Cochran Fellow from Russia purchased \$750,000 of U.S. almonds for use in his candy company's production line. Similarly, a Moldovan participant established links with the Missouri-based Citrus Springs Corporation to sell apple concentrate, and two participants from Tajikistan negotiated the sale of four U.S.-made fruit and vegetable processing systems to the Government of Tajikistan.

Extension Service (Armenia): The Armenian/American Extension Project (AAEP) is helping Armenian farmers and government officials solve their country's current food crisis by working with newly privatized farmers to increase their food production, minimize post-harvest losses, create farmer associations and develop opportunities for adding value to agricultural products. Funded out of FREEDOM Support Act funds, the project is attempting to reach its ambitious goals through support and assistance to help implement appropriate agricultural policy and to create an Armenian Agricultural Extension Service. U.S. extension advisors, located in regional extension offices throughout the country, have worked with Armenian counterparts to assist them in gaining a better understanding of extension methodologies through applied farm management techniques, more efficient food processing and improved marketing of food products.

In addition to the farmer-oriented extension efforts, the project has sponsored technical teams on shorter-term assignments to assist Armenian agricultural experts in addressing issues of land and business privatization, animal

disease detection and control, integrated pest management, post-harvest loss reduction and other issues.

Long-Term Faculty Training Program: This program, which has just gotten under way, will assist the faculties at Russian, Ukrainian, and Kazakhstani agricultural universities and institutes to develop curricula and instructional materials in support of sustained movement towards a free-market economy. Participants will train with state colleges and land-grant universities in the United States. The training will be at least four months but not longer than one year.

USDA staff will conduct interviews during January and February with administrators and faculty members of nine Russian and four Ukrainian agricultural educational institutions. FY1995 funding will support participation of three teaching institutions and 10 professors from Russia and two institutions and five professors each from Ukraine and Kazakhstan.

Training will include learning the principles and practices of Western-style agricultural marketing, agribusiness management, agricultural economics, and preparing syllabi and curricula.

PEACE CORPS PROGRAMS IN THE NIS

Peace Corps currently has 485 Volunteers serving in eight NIS countries: Russia, Ukraine, Moldova, Armenia, Kazakhstan, Kyrgyz Republic, Uzbekistan and Turkmenistan. The Peace Corps' largest program is in Russia, with 37 Business PCVs in Vladivostok and 60 Business and Education PCVs in Saratov. That is followed by 86 Education and Business PCVs in Ukraine, and 83 Education, Business, and Environment PCVs in Kazakhstan. The rest of our programs include Armenia with 42 PCVs in Education and Business; Kyrgyz Republic with 45 PCVs; Moldova with 37 Education PCVs; Turkmenistan with 43 Education PCVs; and Uzbekistan with 52 business and Education PCVs.

Our primary goal in these countries is to help the transition from a centrally controlled economy to a democratic free market system. This is not a traditional case of "developing" countries which are "undeveloped". Rather, it is a question of the "redevelopment" of these countries. The effort to provide help in a planned, methodical way has been very difficult because of an ever-changing political and economic environment. But, Peace Corps has learned important lessons from its experiences on the ground and has made a number of adjustments to better help Volunteers and staff achieve our goals in this region.

While Peace Corps is approaching each country as an individual case, there are obvious commonalties in Peace Corps activities. Volunteers are working directly with people at the grassroots level. By living in the communities they serve and learning the local languages, volunteers are building the personal relationships that are key to the success of their projects. In a very direct way, they are helping ordinary citizens through a difficult period of political and economic transition. Additionally

there are similarities in our programming strategies, which throughout 1994 have focused on English language education and economic development, with a recent start-up in environmental programming.

Education Program

All eight countries have education projects with a total of 287 PCVs. These are mainly focused on English language education. The projects are also branching out to include more specialized English for the adult communities; i.e. business English for businessmen. All these countries put a premium on learning English which is critical in their efforts to open up to the international community and understand western concepts. The newest TEFL Education project is in Saratov, Russia.

The goal of the English teaching program in the NIS is:

To improve countries' capacity to establish and maintain economic, political and academic links with the international community through improvements in the quantity and quality of English language instruction in primary and secondary schools, universities and institutes, and by facilitating the development of English language speaking professionals dedicated to improving environmental conditions.

Specifically, Peace Corps objectives in this program are:

To improve the level of English language competency on the part of students and teachers through expanded and improved quality of English education at the primary/secondary school level and at university and teacher training institutions;

To assist in developing new English language curricula and teaching materials;

To develop and implement in-service training for qualified and requalifying English language teachers;

To enable a large number of students to develop critical thinking and problem solving skills aimed at social awareness;

To enable interested adults and youth who have left the school system, especially those in positions of leadership, to communicate in English;

To assist schools, organizations, ministries and institutes in establishing English for Special Purposes programs; to adapt materials for the ESP classroom; to design a coherent ESP curriculum; and to develop extracurricular or cultural activities.

Economic Development Program

Peace Corps has economic development projects in Russia, Ukraine, Armenia, Kazakhstan and Uzbekistan. There are a total of 193 PCVs in this sector.

The goal of the economic development program in the NIS is:

To assist countries in the transition from a command economy to a free market economy guided by the broad objectives of encouragement and promotion of private sector development, especially at the regional and local level.

Volunteers are assigned to one of six programming areas: (1) Business Centers; (2) Municipal Government Advisors; (3) Agribusiness; (4) Privatization; (5) Business Education; and (6) Banking/Finance.

Specifically, Peace Corps objectives in this program are:

To encourage and support commercial and institutional development at the regional and local levels;

To address the specific needs of the emerging public, private and independent (not-for-profit) sectors of the economy;

To increase the number, viability and profitability of new, small and restructured businesses;

To assist in creating and increasing the number of institutions and organizations, both public and private, which support business development.

Environment Program

Environmental management was disregarded in the past and is another area where Peace Corps will help to build local capacities. In 1994 an environment project was begun in Kazakhstan and currently has five PCVs.

The goal of the economic development program in the NIS is:

To improve environmental quality in the Former Soviet Union by enhancing environmental activity at the local and regional level with a focus on institutional capacity building, environmental education and public participation.

Specifically, Peace Corps objectives in this program are:

To expand the capacity of environmental non-governmental organizations and local/regional government agencies to identify problem areas, suggest and design solutions, oversee implementation, and evaluate results of effective environmental education and environmental protection programs;

To provide technical assistance for projects involving water quality/sanitation, solid waste management, pesticide safety and handling, integrated pest management, recycling, and environmental protection monitoring;

To enhance the ability of local organizations, and consequently the general public, to appreciate, understand, address and appropriately and effectively intervene in environmental protection and rehabilitation issues;

To enhance environmental education in primary and secondary schools through English teaching; to expand pre-service and in-service environmental education training for primary, secondary and university educators;

To promote park and biodiversity education initiatives targeted at students, the public, and policy makers; to reduce the loss of biodiversity through support for improved management of natural forests and protected areas;

U.S. DEPARTMENT OF THE TREASURY - SUPPORT IMPLEMENTATION GROUP

Background: At the Vancouver Summit, Presidents Clinton and Yeltsin agreed on the need for a mechanism to help overcome bottlenecks to the provision of assistance. With U.S. urging, the G-7, at the June 1993 Summit in Tokyo, agreed to form a Support Implementation Group (SIG) to assist G-7 donors and the Russian Government in facilitating flows of financial and technical assistance.

Following the arrival of the U.S. appointed director, Mr. Michael Gillette, in January 1994, the SIG had a very fruitful year. SIG donors met bi-monthly, and Mr. Gillette held regular meetings with officials from the Russian and G-7 governments, as well as from the IMF, World Bank, EBRD, IFC, OECD and other donor organizations. G-7 Ambassadors met a number of times during the year to put their combined weight behind the SIG's initiatives.

After some initial lack of clarity regarding the SIG's Russian counterpart, Deputy Prime Minister Shokhin was instructed to coordinate with the SIG. When Shokhin was replaced, the SIG continued to work closely with Deputy Ministers in the Finance and Economics ministries whom Shokhin had selected to be the SIG's primary counterparts.

SIG Activities: The SIG's priority activities have included: (a) addressing the issue of taxation of foreign grant assistance, as well as other tax collection issues; (b) smoothing delivery arrangements for assistance, particularly the process for receiving visas and permits; (c) helping develop an efficient, modern public procurement mechanism; (d) discussing social welfare implications issues of the restructuring process and encouraging the Russians to assign a counterpart to address these issues; (e) generally disseminating information about assistance flows.

Toward the end of the year, the SIG seemed to make real progress on the first of these concerns. Deputy Finance Minister Alekschenko released a Finance Ministry position paper stating that the Russian government would avoid taxing foreign assistance. First Deputy Prime Minister Shokhin then issued a decree exempting German contractors, implementing the government's housing assistance program, from taxation. Unfortunately, at the end of the year, the contractors continued to face some pressure from tax officials.

On the third issue (Procurement), the SIG arranged for the UK to assign an expert to work with Russian officials on

ways to improve procurement administration. The expert has explored the possibility of establishing a private bureau to handle all government procurement.

The SIG also made good progress in 1995 on the fifth issue by putting in place an information system which would highlight for Russian and donor officials the destination (at a regional level) of all assistance. The SIG will link in to the OECD's Registry of Donor Assistance, so that data input in Paris will be available to local donor officials in Moscow.

Administrative Issues: The Moscow-based office of the SIG was fully operational in May 1994. As stipulated in the original agreement, the core office staff consists of five members, including the Director, a Russian national government specialist, an EU-sponsored specialist on social security reform (on leave from the World Bank), an executive assistant and two local-hire Russian support staff.

A contract has been let to International Center of Washington, DC to establish a geographic information system for the Russian Federation which will allow input and subsequent display of G-7, EU and IFI assistance activities projected on oblast and rayon maps of Russia.

PROGRAM FOR RESEARCH AND TRAINING ON EASTERN EUROPE AND THE INDEPENDENT STATES OF THE FORMER SOVIET UNION (TITLE VIII)

Overview

The purpose of the Title VIII program is to build and sustain the U.S. scholarly base on the region by providing stable financing on a national level for advanced research; graduate and language training (domestic and on-site); public dissemination of research data, methods and findings; and contact and collaboration among government and private specialists.

The Title VIII program operates under the guidance of an advisory committee chaired by the State Department and consisting of representatives of the Secretaries of Defense and Education, the Librarian of Congress, and the Presidents of the American Association for the Advancement of Slavic Studies and the Association of American Universities. Using a two-stage award process, the Department of State conducts an annual, open competition among national organizations with interest and expertise in administering research and training programs in the Russian, Eurasian and East European fields. In FY1994, the Title VIII program was funded at \$10,000,000, with \$6.4 million funded from the FREEDOM Support Act for projects on the New Independent States and \$3.606 funded from the SEED Act for projects on Eastern Europe, including the Baltic countries. The following is a representative list of FY1994 grant recipients, including the amounts and purposes of their awards:

American Council of Teachers of Russian/American Council for Collaboration in Education and Language Study (Grant: \$370,000). Purpose: To provide fellowships for in-country language training through academic year and semester

programs, and a combined research and language training program in Russian, Eurasian and East European languages.

International Research and Exchanges Board (Grant: \$2,250,000). Purpose: To support a variety of programs facilitating American scholarly access to the region. These include 1) individual field research exchanges, 2) predeparture orientations, 3) short-term travel grants, 4) special collaborative projects in the social sciences and humanities, 5) one year research residencies for U.S. postdoctoral scholars to pursue independent research, to report on scholarly community and cooperation, and to assist other U.S. scholars on-site in Siberia and the non-Russian states of the former Soviet region, and 6) dissemination of field research--coordinated programs to make expert research available to U.S. policymakers and opinion leaders through Policy Forums, improved and upgraded scholar handbooks, and bibliographies of current research.

Joint Committee on Eastern Europe (Grant: \$1,200,000). Purpose: To support fellowships for advanced graduate training, dissertation completion, pre-and postdoctoral research, individual and institutional language grants, research conferences, and the Junior Scholars' Training Seminar.

Joint Committee on the Soviet Union and its Successor States (Grant: \$1,785,980). Purpose: To support a national fellowship program for graduate training, dissertation completion, and postdoctoral research, including a professional development and retraining program; an annual workshop in underrepresented fields; institutional grants for intensive training in Russian and non-Russian languages of the former Soviet Union; a research and development program; and support for the American Bibliography for Slavic and East European Studies.

National Council for Soviet and East European Research (Grant: \$2,460,000). Purpose: To conduct a national competition among American institutions of higher education and non-profit corporations in support of postdoctoral research projects on Russia, Eurasia and Eastern Europe.

The Woodrow Wilson Center for International Scholars (Grant: \$1,109,443). Purpose: To support the fellowship, meetings and publications programs of the Kennan Institute for Advanced Russian Studies and the East European activities of the East and West European Program. This program allows scholars to take advantage of the resources found in the Washington, D.C. area.

DEPARTMENT OF ENERGY

The Department of Energy is involved in two distinct assistance projects in the NIS. Both are described below. The first is nuclear power plant safety and regulation and the second is the industrial partnering program.

Nuclear Power Plant Safety and Regulation

Several nuclear power plant safety and regulation projects

initiated with prior year FREEDOM Support Act funds continued in 1994. The U.S. Department of Energy (DOE) and the U.S. Nuclear Regulatory Commission (NRC) are managing programs to improve safety of civilian nuclear reactors in Russia and Ukraine. NRC projects include regulatory support and are described in the following section. DOE projects include:

Operational safety improvements. The development of emergency procedures and management and operational controls guidelines and procedures is proceeding at pilot plants. Several operator exchange visits have been completed.

Fire protection. Hazards analyses have been completed, and samples of various fire protection equipment have been provided to pilot plants in Smolensk and Zaporozhye, with larger shipments of equipment in progress.

Risk reduction measures. Two of a series of risk reduction projects have been completed, with seven in progress and eight awaiting funding. Pilot plants are located in Kursk, Kola and Novovoronezh.

Regional training centers. The development of a set of training courses at the Balakovo and Khmelnitsky training sites is proceeding, with several courses completed. Nunn-Lugar funding for the nuclear plant simulator for the Khmelnitsky training center in Ukraine was obtained, and the program is proceeding.

A joint study on energy options to replace the Chernobyl plant in Ukraine was completed. DOE also participated in the opening of the energy efficiency center in support of alternative power sources to allow the earliest closure of Chernobyl and is working with Ukraine on industrial efficiency projects and coal plant improvement projects.

Work with the Russians to identify options and financing mechanisms for replacement power for the existing plutonium production reactors in Tomsk-7 and Krasnoyarsk-26. Two feasibility studies are being funded by the Trade and Development Agency to examine replacement power options.

New Initiatives.

A contract was awarded to provide Zaporozhye NPP with spent fuel storage

A program to improve emergency response capabilities in Russia and Ukraine has begun.

Liability concerns expressed by U.S. contractors have impacted program activities. The problem is resolved and projects are proceeding.

Industrial Partnering Program

The objective of the Industrial Partnering Program is to redirect the expertise of scientists and engineers of the former Soviet Union from weapons-related activities to civilian applications of commercial value and of mutual

benefit to the United States and the NIS.

A ten-member Inter-Laboratory Board (ILAB) from the DOE National laboratories was established to plan and coordinate the program, and a coalition of U.S. Industries and universities was formed to participate in cost-shared partnerships and educational programs with NIS scientific institutes. The U.S. Industry Coalition (USIC) currently has 46 members, including large and small business, other consortia, and universities.

In 1994 the Industrial Partnering Program progressed rapidly into the program implementation phase. Major goals were met and a cooperative program with key NIS institutes has been developed. Projects have been defined and contracts are being executed in technology areas including materials, manufacturing, biotechnology, energy, and waste management. More than 170 projects are in the implementation phase. These projects provide support for 1,864 scientists and engineers in sixty institutes in Russia, Ukraine, Kazakhstan, and Belarus.

NUCLEAR REGULATORY COMMISSION - Nuclear Safety Regulation

The Nuclear Safety Regulation program element of the Nuclear Safety Initiative has been jointly developed by the NRC and the regulatory organizations of the recipient countries, Russia and Ukraine. NRC and the Russian State Committee for the Supervision of Nuclear and Radiation Safety under the President of Russia, GOSATOMNADZOR (GAN) and the Ukrainian State Committee for Nuclear and Radiation Safety (SCNRS) agreed on a list of prioritized proposals to assist Russian and Ukrainian regulators in training and developing safety standards and procedures. The intent is to increase the regulatory authorities' ability and stature within their respective countries to effectively provide and ensure operational nuclear reactor safety. NRC has obligated \$1.8 million and expended \$200,000 for projects in this area. Among these projects are:

The NRC will provide on-the-job training and technical assistance for representatives from GOSATOMNADZOR (GAN) of Russia on the NRC's process for licensing nuclear power reactors.

The NRC will develop recommendations for creating a Russian system of enforcement with economic sanctions and implementation of a policy of obligations for operating organizations..

Development and implementation of an incident reporting system based on U.S. reporting requirements but tailored to the number and design of operating plants and fuel facilities in Russia.

The NRC will provide technical assistance to GAN-designated personnel in their development and initial application of methodologies for Russian power reactor fire protection and post-fire safe shutdown analysis regulatory review and inspection.

The USNRC will provide an Analytical Simulator(s) to SCNRS--the Ukrainian Nuclear agency--for training of regulatory personnel.

The NRC will provide on-the-job training and technical assistance for representatives from the Ukraine on the NRC's process for licensing nuclear power plants with particular emphasis on the NRC's safety analysis and review process.

IV. TRADE AND INVESTMENT INITIATIVES

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

Overview:

In Russia and the other New Independent States of the former Soviet Union, the opening of new markets and assistance for U.S. businesses seeking access to them is a cornerstone of the current Administration's agenda. U.S. investment overseas plays a critical role in furthering our foreign policy goals, creating U.S. exports, jobs and economic growth, and improving American competitiveness in the international marketplace. OPIC received \$56 million in FREEDOM Support Act funds in FY1994 to support its activities in the NIS. By December 31, 1994, OPIC had approved projects utilizing approximately \$40 million of these funds. In the next three months, OPIC expects to approve an additional six projects which are expected to utilize fully the remaining funds allocated in FY1994.

OPIC is pursuing a long-term strategy of encouraging this investment in the NIS by reducing risk for U.S. investors. As of September 30, 1994, OPIC had approved approximately \$2.6 billion in financing and insurance to support U.S. investments in the NIS. In FY1994 alone, OPIC approvals included more than \$720 million in financing to support 11 projects and nearly \$1.5 billion in insurance to support 30 projects in the NIS.

To date, OPIC has also signed protocols and agreements that will potentially provide more than \$600 million in finance and insurance support for 11 additional projects in the NIS. OPIC is working with the U.S. sponsors involved in these protocols to turn the agreements into finance and insurance commitments.

OPIC offers the following services:

Investment Finance: American investors planning to share significantly in the equity and management of an overseas venture can often use OPIC's finance programs for medium to long-term financing, available through loan guaranties and/or direct loans. OPIC's all-risk loan guaranties, issued to U.S. lending institutions on behalf of eligible U.S. investors, typically range from \$10 million to \$200 million. OPIC's direct loans, reserved for overseas investment projects involving small and medium-sized American companies, typically range from \$2 to \$30 million. These types of financing are available for new ventures or expansion or modernization of existing, successful operations. OPIC also supports a family of investment funds

that leverage its financial resources in various regions and business sectors. These privately managed funds are backed by OPIC guaranties and target emerging markets in the NIS and around the world.

Investment Insurance: OPIC protects U.S. investors against political risks overseas by providing insurance for American investments in new ventures and expansions of existing enterprises. OPIC offers insurance against three political risks: political violence (war, revolution, insurrection and civil strife) affecting assets and/or business income; expropriation; and the inconvertibility of currency. Coverage is available for equity investments, parent company and third party loans and loan guaranties, cross border leases, and other forms of investment exposure. Coverage also is available for contractors' and exporters' exposure in connection with bid and performance bonds, custom bonds, equipment, contractual disputes and other risks. OPIC has special programs for financial institutions, leasing and oil and gas projects.

Investment Development: OPIC conducts investment missions to selected countries in which OPIC operates and has sponsored investor conferences that bring host country parties to the U.S. to meet potential U.S. investors. These programs introduce senior U.S. business executives to key business leaders, potential joint-venture partners and high-ranking government officials who can play an active role in bringing investment projects to fruition. OPIC also sponsors or cosponsors seminars and conferences throughout the U.S. and overseas as a means of informing the U.S. business community of investment opportunities abroad.

In FY1994, OPIC led missions to Siberia, the Russian Far East and Central Asia which focused on sectors including telecommunications, mining, manufacturing, energy and pharmaceuticals and medical equipment. Other events included an Oil and Gas briefing for senior executives in Houston; a conference held in Seattle focusing on opportunities for Pacific Northwest companies in the Russian Far East; and an Ukrainian agribusiness program in Washington, D.C. and Iowa. OPIC has also hosted several executive briefings to introduce U.S. business leaders to the NIS. While in Washington, the leaders of four NIS republics--Kazakhstan, Ukraine, Georgia and Armenia--spoke at OPIC to hundreds of American business people about investment opportunities in their nations.

Scheduled in early spring 1995 is a London Investor Conference enabling OPIC to reach out to the European subsidiaries of U.S. companies which make many of the NIS-related investment decisions. Additional conferences and missions planned for 1995 will focus on specific sectors, such as telecommunications and defense conversion.

U.S. companies have already pioneered projects in the NIS using OPIC insurance to reduce risk and OPIC finance where commercial borrowing is unavailable. Projects highlighted below show the regional and sectoral diversification of OPIC's current NIS portfolio:

Region: Russia Wide

United Technologies/Pratt & Whitney: Announced during the September 1994 summit between Presidents Clinton and Yeltsin, OPIC signed a protocol to provide up to \$200 million in finance and political risk insurance to the Pratt & Whitney Group of United Technologies Corporation for its aviation project in Russia. Pratt & Whitney has established a joint venture with Perm Motors and the design firm Aviadvigatel which will design, manufacture parts for, market and overhaul commercial aviation gas turbine engines and derivatives in the city of Perm. Not only is this venture expected to create over 200 Russian jobs, but it will also generate almost \$65 million in U.S. exports.

US West International: OPIC is supporting US West International Holdings Inc. with an unprecedented \$125 million loan guaranty for a Russian telecommunications venture. Financing from OPIC will be used to help capitalize a telecommunications holding company--the Russian Telecommunications Development Corporation (RTDC)--that will invest in and operate various telecommunications ventures in the Russian Federation. The \$200 million project is expected to result in close to \$82.5 million of U.S. procurement over the next five years. The RTDC's plan is to concentrate on profitable telecom business in the Moscow and St. Petersburg area and then reinvest profits into regional networks in other growing areas throughout Russia.

Region: Siberia

Snyder Oil Corporation: This joint venture will develop and produce oil in the Urals region. The U.S. investor is SOCO Perm Russia, Inc., a subsidiary of Snyder Oil Corporation and their Russian partner is Incorporated Works Permneft, a Russian production association. OPIC is providing a \$40 million loan guaranty to this project expected to generate approximately \$2 billion in total hard currency receipts and generate a positive net U.S. balance of payments of approximately \$220 million. This project will employ advanced Western drilling technology and is estimated to result in the procurement of \$90 million of Russian goods and \$40 million of U.S. goods.

Region: Russian Far East

All Alaskan Seafoods, Inc.: During her visit to Seattle with Russian President Boris Yeltsin in September 1994, OPIC President Ruth Harkin announced OPIC's commitment to support a project by All Alaskan Seafoods, a Seattle-based small business and top producer of crab in the Pacific Northwest. Supported by an OPIC \$13 million loan guaranty, All Alaskan is leasing 10 catcher ships and a large processing vessel to a recently privatized Russian company, Dalmoreproduct, based in Vladivostok. Operating under the Russian flag, the fleet is employing modern deep-water fishing techniques which provide significant environmental benefits over the dragging method currently used by the Russians. The crab produced will be sold worldwide. Among the many benefits of this project are the creation of approximately 250 jobs in Russia and annual U.S. procurement of \$21.4 million.

Region: Central Asia

Kazakhstan:

M-I Drilling Fluids Company: OPIC is supporting a project of the Houston-based M-I Drilling Fluids Company. This venture will establish a barite grinding mill to supply drilling fluid products to the regional oil and gas industry. The OPIC insurance contract for \$2.65 million was the first signed for a project in Kazakhstan and occurred during President Nazarbayev's visit to OPIC in February 1994.

Kyrgyz Republic:

MK Gold: During the 1994 October OPIC mission, OPIC President Ruth Harkin signed an agreement committing more than \$250 million in U.S. Government support to an American-Kyrgyz joint venture to mine and process gold from the Jerooy deposit. OPIC has agreed to provide up to \$87 million in finance and \$158 million in political risk insurance for this project. Partners in the mining venture are MK Gold of Boise, Idaho, and the Kyrgyz gold mining authority, Kyrghygold. This project will generate foreign exchange for the Kyrgyz Republic, create jobs and mark the beginning of many U.S.-Kyrgyz joint investments. The project is the first in the Kyrgyz Republic supported by OPIC.

Region: Ukraine

Alliant Techsystems: One of the largest defense contractors in the U.S., Minnesota-based Alliant will provide equipment and technical expertise to dismantle stockpiled conventional weapons in Ukraine. The project offers a significant foreign policy benefit for both countries by reducing the inherent threat of stockpiled munitions residing in a volatile and uncertain political environment. OPIC is providing \$19.2 million in insurance to this project, which will generate \$19 million in U.S. exports and create 1,000 jobs in Ukraine. A protocol agreement for up to \$10 million in financing for this demilitarization project was signed on November 22, 1994 during the summit between President Clinton and Ukrainian President Kuchma at the White House.

Region: NIS-Wide

The NIS Major Projects Fund: This OPIC-supported fund is expected to generate \$3 billion of investment in the economies of Russia and other NIS. OPIC will guarantee two-thirds of the \$300 million that the fund manager will raise from private sector investors. The fund will finance investment in various capital intensive industries, including metals and minerals, energy, timber and other sectors. The fund will enable those industries to modernize and to increase capacity for downstream processing of NIS natural resources.

NIS First Regional Fund: OPIC also signed a commitment for a second fund to support projects in the NIS that will generate \$1 billion of investment in the economies of Russia and the NIS. OPIC President Harkin signed the commitment with Baring Brothers, the fund manager. OPIC will guarantee a portion of the \$100 million that the fund will raise from American and international investors. This will be a joint U.S./Russian fund, with the Russian Federation contributing \$1 million to it. This fund will provide equity capital in medium-sized projects throughout the NIS. The fund will

seek capital from multilateral institutions making it the first OPIC fund with multilateral involvement.

NIS Agricultural and Food Industry Fund: OPIC's Board of Directors approved a \$75 million loan guarantee for this fund on December 6, 1994. This \$100 million fund is managed by the Agribusiness Management Co. and will invest in agricultural and food industry businesses across the NIS. The Fund expects to make equity investments in ten to fifteen companies over the next three to five years. Some investments may also be made with U.S. agribusiness companies. The Fund's local advisor will be the International Moscow Bank, a consortium bank owned by European and Russian financial institutions.

U.S. TRADE AND DEVELOPMENT AGENCY

TDA is a small, independent agency of the Federal government which assists in the creation of jobs for Americans by helping U.S. companies pursue overseas business opportunities in developing and middle-income countries. Through the funding of feasibility studies, orientation visits, specialized training grants and various forms of technical assistance, TDA enables American businesses to become involved in the planning stage of major infrastructure and industrial projects. Feasibility studies determine the technical, economic and financial viability of projects, furnishing data which are necessary for arranging financing and therefore for project implementation. TDA received \$16 million in FREEDOM Support Act funds in FY1994 to finance these studies and all these funds had been obligated by December 31, 1994.

Projects may be public sector undertakings, planned and implemented by government ministries or agencies, or private sector projects including joint ventures in which U.S. companies plan to take an equity position. The majority of projects funded in the NIS are in the private sector. In either case, TDA must receive a letter of request from the host country sponsoring organization which includes a description of the project. If the sponsor has already identified a U.S. partner, that company must submit a detailed proposal for the study, prepared according to an outline which is available from TDA. TDA generally requires the U.S. firm to provide a substantial portion of the cost of the study, as an indication of the firm's commitment to the project.

When TDA approves funding for a feasibility study, it signs a Grant Agreement directly with the host country sponsor (the "Grantee"), who then executes a contract for the study with its selected U.S. partner. TDA pays the U.S. firm directly, but only after confirming the Grantee's approval of the work that has been performed.

TDA began operating in the NIS in early 1992. Since that time, TDA has approved a total of \$31 million for 226 activities on 150 projects in the NIS. In FY1994, TDA obligated \$16 million on 92 activities for projects in Russia, Ukraine, Kazakhstan, the Kyrgyz Republic, Moldova, Georgia, Belarus, Turkmenistan and Uzbekistan. The projects

encompassed a wide range of sectors, including oil and gas, telecommunications, aviation, electric power, mixed use residential and commercial development, minerals development, and manufacturing.

EXPORT-IMPORT BANK

The Export-Import Bank of the United States (Ex-Im Bank) has programs available to support U.S. exports to most of the New Independent States. Ex-Im Bank provides coverage for repayment terms up to 180 or (in some cases) 360 days through our Insurance program. This program is designed to support financing for the sale of consumable goods, raw materials, pharmaceuticals, commodities, spare parts, and components. It essentially insures the U.S. exporter, or its bank, against risks of nonpayment by a foreign buyer or bank. Ex-Im Bank received \$300 million in FREEDOM Support Act funds to support its projects in the NIS. As of December 31, 1994, all of these funds had been obligated.

Ex-Im Bank medium and long-term guarantees, direct loans and insurance are available for sales of capital equipment and services, but are available on a limited basis for NIS states.

Ex-Im Bank activities in Russia include:

Sovereign Risk Program: For FY94, Ex-Im Bank approved financing to support \$280 million in U.S. exports for various projects including:

\$25.6 million Sun Coatings sale of glass coating equipment.

\$56.9 million Babcock & Wilcox sale of a boiler for a forest products plant.

\$135 million Hunter Engineering of Riverside, CA sale of an upgrade program including a cold rolling mill to produce sheet aluminum for an aluminum plant.

Support was also provided for the sale of textile manufacturing equipment, medical and pharmaceutical equipment, concrete block manufacturing equipment and saw mill equipment, among others.

Oil and Gas Framework Agreement: The Oil and Gas Framework Agreement was signed on July 6, 1993 by the Russian Ministry of Fuel and Energy, the Russian Ministry of Finance, the Russian Central Bank and the Export-Import Bank of the United States. The Framework Agreement is designed to provide Ex-Im Bank with the security it will need to provide \$2 billion or more of financing in support of U.S. exports for the revitalization of the Russian energy sector.

During FY94, Ex-Im Bank approved \$1.1 billion for six transactions under OGFA. The financing will support upgrade and rehabilitation programs for oil production associations and refineries, including those for Permneft, Nizhnevartovskneftegaz, Chernogorneft, Tatneft, Lukoil-Perm Refinery and Nizhnekamskneftekhim.

During first quarter of FY1995, Ex-Im Bank approved an additional \$351 million for four more deals to support sales for rehabilitation programs to Samaraneftegas, Tomskneft, the Yaroslavl Refinery, and the Norski Refinery.

Private Bank Risk:

\$15 million Credit Guarantee Facility between Bank of New York and Tokobank.

\$411.3 million General Electro Mechanical Corporation sale of aircraft riveting equipment to Volga-Dnepr Cargo Airlines.

The new high risk policy allowed us to open for medium-term business in NIS states where previously we had been only open short-term. Ex-Im Bank activities in the other New Independent States include:

In July 1994, Ex-Im Bank approved the first transaction for Kazakhstan for \$23.4 million in equipment to build a citric acid plant.

In February, 1994, Ex-Im Bank approved the first Preliminary Commitment for Uzbekistan for \$58.8 million for a natural gas reinjection facility to Uzbekneftegas.

Ex-Im Bank has signed Project Incentive Agreements (PIAs) with Kazakhstan, Turkmenistan and Belarus, and has proposed PIAs to Ukraine and Uzbekistan. The PIA's are a Framework for the necessary governmental assurances for Ex-Im Bank to go forward on limited recourse project finance deals and secured asset financing in these countries.

Highlights from the year:

Yeltsin/Clinton Summit: During the visit of the Russian President Yeltsin during September 1994, Ex-Im Bank acted to support more than a billion dollars in U.S. exports.

Ex-Im Bank and the Russian borrower, ITCS signed a joint statement of support for the sale of a \$124 million IBM/American Airlines/AT&T Airline Reservations System for the International Technology Center, Sirena-3 (ITCS).

Transaction Agreements were signed to support more than \$500 million in sales of U.S. oil production equipment to Russia. This included a \$54.5 million export by IRI International Corporation of Pampa, TX to Chernogorneft in Tyumen \$253.5 million to Tatneft in Tatarstan; \$293.4 million export to Nizhnevartovskneftegas in Western Siberia; \$271.8 million to Permneft in Perm.

Signed three agreements backed by the sovereign guarantee of Russia supporting total exports of \$63.4 million for the sale of glass coating equipment, concrete block making plants and medical equipment.

Ex-Im Bank announced the authorization of financing for \$135 million sale of sheet aluminum to Krasnoyarsk Metallurgical Plant (KraMZ) in Krasnoyarsk, Russia.

Policy Changes: On August 1, 1994 Ex-Im Bank put into effect a new high risk exposure fee policy. By charging a higher fee, Ex-Im Bank opened in countries where we were previously closed. This had a major impact on a number of former Soviet Union countries where we opened from only short-term to medium-term. Turkmenistan and Uzbekistan were affected and in Kazakhstan we opened to include long-term public sector cover as well.

Gazprom Memorandum of Understanding: On November 8, 1994 Ex-Im Bank signed a Memorandum of Understanding with Gazprom, Russia's gas production and distribution company. Under this MOU, Ex-Im Bank is prepared to support financing for as much as \$750 million for the purchase by Gazprom of U.S. equipment to assist it in increasing the efficiency and productivity of the Russian gas sector.

ENTERPRISE FUNDS

The U.S. Agency for International Development (USAID) has obligated a total of \$214 million, including \$194 million in FY1994 (\$316 million was originally budgeted), and expended \$58 million supporting the establishment of Enterprise Funds in the New Independent States (NIS). The Funds are designed to stimulate the creation and expansion of newly privatized or privatizing businesses in the emerging market economies of the NIS. They complement other USAID programs created for the purpose of assisting Russia and the other former Soviet republics in the transition from command to market economies. An additional \$65 million is budgeted for this project in FY1995.

USAID has established three bilateral Enterprise Funds: the Russian-American Enterprise Fund (RAEF), the Central Asian-American Enterprise Fund (CAAEF) and the Western NIS Enterprise Fund (WNISEF). These Funds may take equity positions or make loans to privatized or privatizing small- to medium-sized enterprises in those countries. Enterprises may include Western, particularly American, investors. In certain instances, the Funds may also support technical assistance and training related to their actual or potential investments and loans. Loans may be offered either directly or in conjunction with commercial banks. Underscoring the principle that sound investments can best be accomplished by investment professionals, the U.S. Government has a limited role in the Funds' day-to-day operational and investment decisions, although USAID carefully monitors each Fund's activities. Each Fund is governed by a Board of Directors announced by the President of the United States. These Boards hire and oversee a staff of experienced business and investment specialists to manage their respective Fund. Together, the Board and the management team for each Fund will have the flexibility necessary to make critical management and operational decisions.

The Russian American Enterprise Fund

Gerald Corrigan, the former President and CEO of the Federal Reserve Bank of New York, serves as Chairman of the Board of the RAEF. The President/CEO of the RAEF is Mr. A. Robert

Towbin. The RAEF has offices in New York, Moscow and Khabarovsk in the Russian Far East.

The RAEF has closed two direct investments worth close to \$1.3 million: a women's clothing factory outside of Moscow, and a modern wood veneer plant in Archangelsk which is being jointly financed with the EBRD.

In addition, under its small business lending program the RAEF has signed agreements with 8 Russian private banks in St. Petersburg, Moscow, Vladivostok and Khabarovsk that will provide loans of up to \$100,000 each to small private enterprises. The Fund expects its small business lending portfolio to grow to \$12-15 million within the next year.

The Central Asian American Enterprise Fund

USAID has established the CAAEF to promote the creation and expansion of small- and medium-sized businesses in Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan and Turkmenistan. Former New York Congressman Stephen Solarz is the Chairman of the CAAEF Board. The CAAEF has opened an office in New York and has appointed Richard Bernstrom as its President/CEO who will be based in Tashkent. In addition, the CAAEF is expected to open an office in Almaty, and may establish offices in the other Republics.

The Western NIS Enterprise Fund

USAID has established the WNISEF to serve Ukraine, Belarus and Moldova. Glenn Hutchins, now with the Blackstone Group in New York, will serve as the Chairman of the WNISEF Board. A key issue determining the effectiveness of the WNISEF, particularly the potential for productive private investment, will be progress on economic reform, particularly in Ukraine and Belarus. The WNISEF has opened an office in New York and in Kiev, and has appointed Scott Carlson as its President/CEO.

Fund for Large Enterprises in Russia

In developing a package of technical assistance support for Russia, the G-7 nations created the Special Privatization and Restructuring Program (SPRP), which includes both bilateral and multilateral initiatives. As the principal bilateral component of the U.S. contribution to the SPRP, USAID has established the Fund for Large Enterprises in Russia (FLER). The FLER is aimed at meeting the special needs of medium to large enterprises (1,000 to 10,000 employees) in certain reform-oriented regions in Russia. Those enterprises require access to urgently-needed equity and loan capital as they emerge from the mass privatization efforts now underway in that country.

In January 1994, President Clinton announced W. Michael Blumenthal, the former Treasury Secretary in the Carter Administration, as the FLER's Chairman of the Board of Directors. USAID and the Overseas Private Investment Corporation (OPIC) are the co-sponsors of the FLER, which will provide equity, credit, and related technical assistance to larger-sized enterprises that have occupied

key positions in the Russian economy, either by virtue of their size, level of employment, or position in strategically significant sectors of Russia's economy. FLER activities should result in successful support to the restructuring of a select number of privatized Russian firms, expansion of private sector employment opportunities, development of several U.S.-Russian joint ventures, and generation of projects which successfully leverage U.S. private sector capital. The FLER will give particular attention to potential investments in companies considered too risky by other private investors, due to either lack of track record or the fluid political and economic environment in which they operate in Russia. The President/CEO of the FLER is Mr. Austin Beutner. The FLER has offices in New York and Moscow.

In December, 1994 the FLER closed on its first deal, a \$3.75 million equity investment in U.S. Global Health, a western style outpatient facility in Moscow in which PepsiCo and Columbia-Presbyterian have also invested.

FLER has also announced preliminary agreement to provide a \$13.5 million financing package to UNOC Equipment and supply, a new joint venture to produce technologically advanced drilling rigs. UNOC is a joint venture of Uralmash, a leading Russian industrial company, and the American firms of National Oilwell and Caterpillar.

EBRD Russia Small Business Fund

At the Tokyo Summit in July 1993, G-7 members decided to create a Russia Small Business Fund (SBF) to provide newly created small and micro enterprises in Russia with access to needed capital and technical assistance. Total funding for the SBF is targeted at \$300 million, half of which will be provided by the European Bank for Reconstruction and Development (EBRD). The remainder will be provided by other G-7 nations. The USG, through USAID, will contribute \$30 million.

The first activity of the EBRD/SBF is a \$10 million Pilot Program designed to determine the appropriate structure and operation for the full-scale \$300 million SBF, given the inflationary environment and underdeveloped state of Russia's financial infrastructure.

USAID has contributed \$2 million to the establishment of the \$10 million Pilot Program, and expects to contribute up to \$7 million to an expanded version of the Pilot Program. The extended Pilot Program uses three approaches to provide finance to micro and small businesses: a business advisory component, a micro-lending program, and a lending windows program using existing financial institutions. Activities are underway in Tula, Nizhny Novgorod, Tomsk, St. Petersburg, Novosibirsk and Samara. Following completion of the Pilot Program and assessment of its impact, USAID is expected to contribute to the full-scale SBF.

U.S./EBRD Regional Venture Fund in the Lower Volga Region

Given the enormous need of equity financing for the Russian

private sector, the U.S. Government, other G-7 donors and multilateral development institutions like the EBRD and the International Finance Corporation are working actively to develop regional equity funds in various regions in Russia that are implementing economic reforms.

USAID and the EBRD have established a regional venture fund for enterprises in the Lower Volga Region (Volgograd, Saratov and Samara) that have recently undergone privatization and show reasonable prospects for operating on a viable commercial basis.

BUSINESS INFORMATION SERVICE FOR THE NIS (BISNIS)

BISNIS provides information, counseling, contacts and trade leads to U.S. companies interested in doing business in the Newly Independent States (NIS) of the former Soviet Union. BISNIS also assists NIS companies find American partners. In FY94, BISNIS handled almost 60,000 inquiries. In FY94, BISNIS expanded its services and many U.S. companies have successfully entered the NIS markets as a result. Approximately 90 percent of BISNIS costs have been funded from U.S. assistance funds. The FY94 budget is \$1.9 million, \$1.0 million was obligated and \$1.0 million has been expended.

Information Hotline: BISNIS provides information on how to do business in the NIS and on USG programs supporting trade and investment in the region, including TDA, OPIC, Ex-Im Bank and the various enterprise funds.

BISNIS fielded over 30,000 telephone calls in FY1994, and over 75,000 inquiries since it opened in June 1992. Queries to the office remain high at 700-900 calls per week. Many callers are "repeat" callers, affirming their satisfaction with the assistance received.

In FY94, over \$900 million in export sales for 1994-95 have been attributed to the assistance provided by BISNIS, with another \$1 billion in negotiation.

Flashfax Service: BISNIS uses this automated fax information delivery system, available 24-hours a day, to distribute critical market information, including trade leads, country commercial overviews, information on sources of finance, a trade promotion calendar, and contact information for key officials and agencies in each NIS country.

Over 400 documents were distributed by flashfax in FY94. New information is entered every week. Almost 30,000 calls were made to it in FY94, averaging 550 inquiries per week.

The business community has come to depend on this service to keep them updated on the NIS markets. One small business owner claims, "it beats anything I have encountered in the private or public sector."

BISNIS Bulletin: This newsletter is the primary vehicle for informing the U.S. business community about new U.S. Government programs supporting trade and investment in the

NIS, as well as upcoming trade missions and trade shows, changes in trade rules and regulations, and other significant market developments.

Over the past year, 7,000 additional U.S. companies have requested to receive this publication, bringing the total subscription to 19,000.

In FY94, the newsletter focused its reporting on banking, privatization, transportation, taxation, and results of the Presidential Business Development Mission.

A regular column in this newsletter, "Regional Corner," gives U.S. companies information on cities outside of Moscow and St. Petersburg. City officials from Tolyatti, Cherepovets, Vladimir and Kaliningrad report that dozens of companies contacted them and several business partnerships and deals were completed after their cities were featured in the BISNIS Bulletin.

Critical Market Information Initiative: One of BISNIS' main goals is to collect critical information on these emerging markets and to get it out to the business community.

BISNIS has contracted with local nationals or organizations to work as Overseas Network representatives at U.S. and Foreign Commercial Service (US&FCS) Offices and embassies in the NIS to identify potential partners and collect commercial information.

In FY94, BISNIS had contractors in Moscow, St. Petersburg, Vladivostok, Khabarovsk, Yekaterinburg, Kiev, Tashkent, Almaty, Tbilisi, Dushanbe, Chisinau and Bishkek. BISNIS often communicates with these contractors through INTERNET and can query them when a question from a business caller can not be answered with the information at hand in Washington, D.C.

As a result of this initiative, BISNIS can provide detailed market information not easily available elsewhere, such as contacts in the construction and housing sector in Russia, Uzbek tax incentives for foreign investors, an overview of the Ukrainian steel industry, an overview of the hydroelectric industry in Tajikistan, and tariff schedules.

BISNIS trade specialists use the Overseas Network and other sources of information to regularly update commercial overviews they have written for all 12 NIS countries.

BISNIS also has established very close relationships with all U.S. Government agencies with programs in the NIS that support trade and investment. As a result, many U.S. Government agencies can refer their business callers to BISNIS and know that the caller will have their questions answered.

BISNIS worked with U.S. Government agencies providing financing to write a complete guide to "Sources of Finance in the NIS." Over 10,000 U.S. companies have requested and received this publication.

Matchmaking Program: The BISNIS Search for Partners newsletter lists NIS companies looking for U.S. partners. BISNIS receives the leads from its Overseas Network, NIS embassies in the United States, U.S. embassies in the NIS, the Peace Corps, and organizations funded by USAID that have contact with NIS businesses.

In FY94, BISNIS doubled the number of Search for Partners issues published and half of the issues doubled in size. The issues focused on the following sectors: energy and environment, housing and construction, healthcare, consumer goods, defense conversion, machinery, agribusiness and general services.

After being listed in the Search for Partners, an NIS firm generally receives a dozen to several hundred replies from American companies. In Ukraine, 27 companies have been listed in Search for Partners and there are 10 ongoing negotiations.

Several NIS firms have become regular distributors for American products after being listed in Search for Partners, leading to business for the NIS firm and increased overseas sales for the American companies.

Commercial Opportunity Alert: BISNIS works closely with US&FCS, the EBRD and the World Bank to publish information on tenders and trade leads in the Commercial Opportunities newsletter and in the Flashfax. BISNIS trade specialists also contact companies directly when they learn of major projects under consideration in the NIS.

A major medical company from New Jersey sold several million dollars worth of pharmaceuticals and supplies to Russia after it saw information on a World Bank tender listed in this newsletter.

A small trading company in New Orleans has tapped into the Central Asian market for food supplies after seeing an opportunity listed in this newsletter.

Several U.S. mining companies are competing for large tenders that were listed in the newsletter for Russia and Central Asia.

The U.S. telecommunications industry credit several multi-million dollar deals to BISNIS after receiving critical information from the office for major projects.

Defense Conversion Partnerships: BISNIS works with Commerce's Bureau of Export Administration (BXA), the Defense Department and the State Department to publicize various programs supporting defense conversion. It regularly features defense conversion in its Search for Partners newsletter.

In FY1994, BISNIS became the main source of information about DoD initiatives to provide seed funding for joint ventures involved in defense conversion. BISNIS published several articles on Cooperative Threat Reduction program

funding and alerted U.S. companies to deadlines to apply for funding.

BISNIS devoted two issues of its Search for Partners publication to defense conversion, publishing approximately 100 leads.

A small defense firm in California gives credit to BISNIS for helping it land a \$135 million export deal to Russia related to defense conversion.

Central Asia Business Conference: BISNIS organized a U.S.-Central Asia Business Development Conference in Washington, DC in May 1994, hosted by Secretary Brown, and attended by his counterparts from the five Central Asian countries.

The conference attracted close to 650 participants from the private and public sectors and was the largest event ever held to facilitate trade and investment between the United States and countries of Central Asia. The Central Asian participants were ecstatic over the attendance and the attention the conference received.

Several major U.S. corporation made contacts at the conference that have allowed them to pursue major deals in mining, telecommunications, and oil and gas.

Commercial Visitor Program: BISNIS is regularly contacted by private and public groups sponsoring visits of NIS business people and government officials to arrange briefings on U.S. Government programs supporting trade and investment and to facilitate contacts with American companies.

In FY94, BISNIS arranged programs for oil and gas representatives from the Russian Tyumen region, for Ukrainian healthcare officials, senior mining executives from the Russian Kola peninsula, prominent Russian chemical industry executives, business groups from Tajikistan and the Kyrgyz Republic, miners from the Yakutia/Sakha region in Russia, Russian entrepreneurs from Moscow, St. Petersburg and Vladivostok, Ukrainian coal executives, and others.

U.S. companies were able to make excellent business contacts and several multi-million dollar deals are in negotiation as a result.

Guide to U.S. Government Programs in the NIS: BISNIS wrote and USIA translated into Russian and Ukrainian the booklet "Trade with America: A Guide to U.S. Government Programs."

The guide is written for an NIS audience and explains and gives contact information for Commerce Department programs, USAID programs, USIA programs, Ex-Im Bank, OPIC, USDA, TDA, Energy Department programs, Enterprise Funds in the NIS, Eurasia Foundation, Peace Corps, business internship programs and others of interest to NIS businesses and entrepreneurs.

Thousands of copies are available at every embassy and consulate and through the USAID-funded organizations in the

NIS. BISNIS provides the guides to NIS groups visiting the Commerce Department and at conferences. Copies are also being made available to Congressional delegations and senior Administration officials traveling to the region to give to NIS officials and business people they meet.

Outreach to U.S. Companies: Many U.S. companies are not aware of the growing opportunities for making money in the former Soviet Union. For the first time, annual exports of U.S. manufactured goods to the region will reach \$2 billion in 1994, growing at twice the rate exports are growing to the rest of the world. U.S. manufactured exports could increase dramatically over the next decade if American companies establish a market presence now. BISNIS has launched an effort to inform American companies about the opportunities, the new sources of finance, and other assistance the USG can provide as they explore these newly emerging markets.

BISNIS trade specialists have participated in conferences and seminars in Columbus, Ohio; Milwaukee, Wisconsin; Seattle, Washington; Anchorage, Alaska; Los Angeles, California; Atlanta, Georgia; Philadelphia, Pennsylvania; New York City; Pittsburgh, Pennsylvania; Detroit, Michigan; Portland, Oregon; Chicago, Illinois; Las Vegas, Nevada; Denver and Vail, Colorado; Boston, Massachusetts; and Houston, Texas,

BISNIS works closely with the State Departments of Trade and Economic Development, including those for Washington, New York, Minnesota; Pennsylvania; World Trade Centers including Alaska, World Trade Center Denver, World Trade Center St. Louis, and hundreds of Congressional Offices to help U.S. companies find the information they need to tap into the growing opportunities in the NIS.

THE AMERICAN BUSINESS CENTER PROGRAM

This report describes the progress made in implementation of Section 301 of the FREEDOM Support Act regarding American Business Centers in Russia and the Newly Independent States. Section 301 authorizes up to \$12 million for the U.S. Department of Commerce (the Department) to administer the American Business Center (ABC) Program through funding from the U.S. Agency for International Development (USAID). The program's goal is to promote the rapid expansion of U.S. trade and investment in the Newly Independent States (NIS) of the former Soviet Union, with emphasis on small- and medium-sized U.S. firms.

Five ABCs will be operated by and located with the US&FCS posts in St. Petersburg and Vladivostok, Russia; Kiev, Ukraine; Almaty, Kazakhstan; and Tashkent, Uzbekistan. These five are "co-located" sites. The ABC in St. Petersburg opened in July 1994. The ABC in Vladivostok is expected to open in early 1995, and Kiev, Almaty and Tashkent are expected to open in mid-1995.

Nine ABCs will be established and operated by private sector entities, mainly through cooperative agreements with the Department. These "solo" ABCs will be located in NIS cities

with no US&FCS presence. Seven awards have been made for solo-ABCs in Nizhny Novgorod, Yekaterinburg, Vologograd, Chelyabinsk, Nizhnevartovsk, Novosibirsk, Russia and Minsk, Belarus. Two additional awards are expected to be granted this winter. NIS cities under consideration for the remaining solo-ABC site include Yuzhno Sakhalinsk in Russia. The ABC in Khabarovsk, Russia is currently operated through an interim management contract with oversight by the Commercial Officer in Vladivostok.

ABCs provide American companies with a broad range of business development and facilitation services including: international telephone and fax; short term office space; seminar and exhibition space; assistance with arranging appointments; secretarial assistance; word processing equipment; interpretation and translation; photocopying; market research and counseling on local market conditions and business practices. The ABCs will provide significant benefits to NIS firms such as business training, technical assistance, and use of a commercial library which will serve as a repository for commercial, legal and technical information. The ABCs will enhance the ability of NIS firms to become viable trade and investment partners for U.S. firms.

Challenges

The US&FCS is proud of the American Business Center (ABC) Program and the progress made in meeting its goals to date. Solid progress was made toward the establishment of both the co-located and solo ABCs in Russia and the NIS. In the interest of transparency, however, we feel it is important to identify the challenges that have emerged, especially at this stage of the program's evolution. These problems, noted in the site status reports, are caused primarily by Russian government bureaucratic impediments and/or a lack of cooperation between U.S. government agencies.

U.S. - Russian Bilateral Issues: The Russian Government confirmed the location of ABC sites during the Gore-Chernomyrdin meetings on June 23, 1994. The confirmation took place through an exchange of letters between Secretary of Commerce Brown and Minister Davidov ensuring Russian Government cooperation in establishing the solo-ABCs in the selected cities. Later, the Ministry of Foreign Economic Affairs (MinFER) determined that a separate Government Order is required to grant formal Russian concurrence on the cities in which an ABC can be located, and to activate the various Russian Government promises as chartered in the Bilateral Assistance Agreement and the subsequent ABC-specific Memoranda of Understanding (MOUs) between the Governments of the United States and Russia. The State Customs Committee and its regional representatives recognize neither the Bilateral Assistance Agreement nor the MOUs, and consequently, the State Customs Committee arbitrarily levied taxes and duties on ABC items that should be exempt. We expect the Government Order to help to solve these problems, though it will not be a panacea for the many bureaucratic challenges faced in Russia.

Intragovernmental Relations: The establishment of co-

located American Business Centers from ground zero requires finding suitable office space which is scarce and requires renovation to bring it up to Western standards. This, in turn, requires intensive interaction between agencies within the U.S. Government, and especially between the Departments of Commerce and State. US&FCS has worked with the Department of State's Foreign Buildings Operations (FBO) office to resolve a number of these issues, but FBO has not made the ABC program a priority adding to the difficulties in establishing the centers.

Status of ABC Sites

Co-located Sites

Almaty, Kazakhstan - Working with the U.S. Information Service (USIS), the US&FCS located suitable office space for the ABC/FCS site in Almaty. In August 1994, however, USIS decided to withdraw from the Almaty site. Because USIS had the bulk of the space for and cost of renovation, US&FCS could not proceed with the original contractor for renovation. As a result, the renovation schedule for the ABC/FCS is delayed. US&FCS now anticipates that the renovation of the site will be complete and the ABC open for business in Spring 1995.

Khabarovsk, Russia - The start-up of the Khabarovsk ABC, including hiring and training personnel, was completed during fourth quarter FY1994. The ABC began offering business services in September with a Grand Opening scheduled for early 1995. The opening of the Center followed the signing of an interim management contract through January 1, 1995 with Global Village Trading and Pacific Law Center. The FCS/ABC in Vladivostok continues to oversee the management contract.

Kiev, Ukraine - For nearly two years US&FCS has worked through FBO to award the construction contract to renovate the future ABC/FCS in Kiev. In response to continuous pressure from US&FCS, FBO revised their schedule to award a contract from February 1995, to December 1994. US&FCS anticipates the renovation/construction of the ABC to begin in early 1995 with completion in Spring 1995. Given this schedule, the Kiev ABC/FCS is scheduled to be open for business in late Spring or Summer 1995.

St. Petersburg, Russia - The ABC St. Petersburg unofficially opened its doors on July 11 and received its first paying client on July 13. Official approval by the local government to occupy the site was granted in September and the Grand Opening of the ABC in St. Petersburg took place on September 9, 1994. The Director General of the US&FCS, Lauri Fitz-Pegado, was the guest of honor at the ribbon cutting ceremony and was joined by DAS for International Operations, Robert Taft. The ceremony was immediately followed by an open house/reception attended by over 250 Russian and American officials from both the public and private sectors.

The ABC St. Petersburg provided services accounting for 108 paid transactions in the following categories: office

rentals, carrel rentals, telephone and fax services, word processing and typing services, and mail box services. In addition, the Commercial Library (which is located within the ABC facilities) received over 600 visitors, and the ABC receives a steady daily flow of inquiries regarding ABC fees and services. The ABC Conference room was also used once for a meeting of the directors of all AID-sponsored programs in Northwest Russia, and twice by the Overseas Security Action Committee, which was recently created with the assistance of the U.S. Consulate in St. Petersburg.

Tashkent, Uzbekistan - After a two-year search for a suitable location for the co-located ABC, the Embassy signed a lease in August. FCS had difficulty in securing a location for the ABC/FCS because of a shortage of suitable buildings in Tashkent and delays caused by the local government. The lease will be shared by three U.S. Government agencies, the other two being USAID and USIS. The decision was made to contract locally for the renovation because of FCS's experience with contracting through FBO for other co-located sites. However, FBO will still need to assist Post to contract locally due to limitations on Post contracting authority. Therefore, FCS again faces difficulties receiving FBO's commitment and priority in letting the Tashkent renovation contract. FCS hopes that the contract is let in early 1995 so that the ABC can open in mid-1995.

Vladivostok, Russia - ABC Vladivostok is fully staffed and began operating in its temporary site at the Olimpiyets Sports Complex in Vladivostok. In late September, a team from FBO traveled to Vladivostok to evaluate the facility proposed as the new U.S. Consulate. FBO's assessment that the new Consulate will be ready for occupancy in 12 to 18 months (FY 1996) means the ABC will remain co-located with the FCS offices in the Complex for at least another year. Nevertheless, the Center is providing services, and will have its unofficial opening on January 4, 1995.

Solo Sites

Chelyabinsk, Russia - International American Products, Inc. (IAP) was awarded the Chelyabinsk ABC in Russia on July 18, 1994. The facility for the American Business Center - Chelyabinsk was located in mid-July and the lease contract was executed in October. Renovation of the basic facility was completed and the American Business Center - Chelyabinsk occupied its space in the Economical Department on October 16. The Governor of Chelyabinsk issued a letter officially acknowledging the status of the American Business Center and confirming recognition of the special customs and tax exemptions contained in the Agreements and Protocols between the Russian and the American governments.

Minsk, Belarus - After ironing out some complex regulatory issues regarding construction with federal funds, the ABC Selection Panel selected Americom Business Centers, Inc. as the ABC award recipient for Minsk. At the end of September, the Department cleared the application and sent the award transmittal letter. The grant was accepted in October, and the Department of Commerce will hold orientations for

Americom early in January, 1995.

Nizhnevartovsk, Russia - The Environmental Planning Group (EPG) of Barrington, Illinois signed a cooperative agreement in March, 1994, to establish and operate the American Business Center in Nizhnevartovsk, Russia. The ABC's official registration is being delayed pending review of the registration documents by the Russian government. The Grand Opening of the ABC Nizhnevartovsk took place on July 28. In attendance at the opening were regional industry representatives, local government officials including the Mayor of Nizhnevartovsk and representatives of the US&FCS/Moscow. As of October 1994, the ABC Nizhnevartovsk is approximately 90 percent operational, and full services are expected to be available by the new year. The Center had its first year evaluation in November, and shortly thereafter received U.S. Ambassador Pickering and a high-level delegation from the Department of Commerce. The delegation was impressed with EPG's operations and the visit galvanized the ABC's already strong position within the local community.

Nizhny Novgorod, Russia - The American Graduate School of International Management (Thunderbird) was awarded the ABC in Nizhny Novgorod on May 1, 1994. Thunderbird located space for the American Business Center at the Institute for Economic Development in the heart of the commercial center of Nizhny Novgorod. The ABC will be registered pending issuance of the Russian Government Order, is expected to be fully operational by January, 1995 and have its Grand Opening in April.

Novosibirsk, Russia - The Science Applications International Corporation (SAIC) of San Diego signed a cooperative agreement with U.S. Department of Commerce in January 1994. Since that time SAIC struggled to develop a sound relationship with the regional government in Novosibirsk. The Department intervened with the Vice Governor of Novosibirsk and things appear to have improved somewhat. SAIC registered itself as SAIC - Novosibirsk and is providing services identical to an ABC. They plan to register as ABC - Novosibirsk and hold a Grand Opening pending the issuance of the Russian Government Order. SAIC had their first year evaluation in November, 1994 and has since signed a lease for space in the Hotel Sibir.

Volgograd, Russia - The American Graduate School of International Management (Thunderbird) was awarded the Volgograd ABC in Russia on May 1, 1994. Thunderbird located temporary office space for the American Business Center at the Panorama Museum, and staff members are continuing to negotiate for a permanent ABC site. The ABC will be registered pending issuance of the Russian Government Order. The ABC expects to become operational over the winter and to hold a grand opening in April.

Yekaterinburg, Russia - The Pragma Corporation was awarded the Yekaterinburg ABC on May 1, 1994, and opened its doors on July 11, 1994. The ABC registered as an official entity in Yekaterinburg and the necessary equipment was purchased for the ABC. Some necessary equipment was purchased in the U.S., but shipment is being held in the U.S. pending

resolution of issues surrounding customs and taxes by the Ministry of Foreign Economic Relations. US&FCS expects these issues to be resolved with the issuance of the Russian Government Order.

Pragma began researching and making contacts with NIS firms and other U.S. Government- funded programs in order to coordinate efforts and share information. Examples of other organizations and programs with which Pragma began working last quarter include the American Consul General in Yekaterinburg, the International Executive Service Corps, the ABC Chelyabinsk, and the Medical Equipment & Health Services Business Development Mission to the Urals.

The medical equipment trade mission was highly successful, due in large part to the involvement of the ABC - Yekaterinburg. Between the ABCs in Yekaterinburg and Chelyabinsk, over 300 individual business meetings were arranged for trade mission members, and over \$10 million in contracts were tentatively concluded. In addition, the ABC - Yekaterinburg hosted a seminar for General Electric's Power Systems Division which was so successful that GE is considering a tour of the other cities in Russia where ABCs are located.

Yuzhno-Sakhalinsk, Russia - The ABC Panel selected an award recipient for Yuzhno Sakhalinsk in September 1994. The application was submitted and received final clearance from the Department of Commerce. The grant, however, cannot be offered until the Russian Government Order approves Yuzhno Sakhalinsk as an ABC site.

SPECIAL AMERICAN BUSINESS INTERNSHIP TRAINING PROGRAM (SABIT)

Overview: The SABIT Program is a unique private sector-U.S. Government effort designed to support the New Independent States' (NIS) transition to a market economy while fostering long-term U.S.-NIS commercial ties. Under SABIT, the Department of Commerce, with funding from the FREEDOM Support Act, provides grants to American companies to help defray the costs of hosting NIS managers and scientists for three to six months of hands-on training.

U.S. organizations interested in providing training to NIS counterparts apply to SABIT when funds are available. SABIT evaluates these applications and awards grants on a competitive basis. For those organizations awarded grants, SABIT reimburses the cost of each intern's round trip airfare and a \$30 per diem, to be given directly to the intern to cover meals and incidentals. The maximum amount for each award is \$7,500 for six months of training. The host firms pay the remainder of the costs of the internship, including housing, medical insurance, and the time of their managers who provide the training. The companies' costs usually equal or surpass the amount covered by their grants. Therefore, the SABIT Program achieves high leverage of government funds and is extremely cost-effective.

To date, SABIT has awarded grants to over 180 U.S. companies which have successfully trained more than 330 NIS executives

and scientists.

From January 1 to December 31, 1994, 153 interns arrived in the United States for SABIT training, and 132 interns completed their training.

SABIT gives priority consideration to U.S. companies in the following fields: agribusiness, defense conversion, energy, environment, financial services, housing, health care, product standards and quality control, telecommunications and transportation.

SABIT is a so-called "win-win" opportunity for U.S. organizations and their NIS counterparts, encouraging the development of long-lasting business ties and scientific collaboration.

More than 60 percent of the U.S. organizations that have participated in SABIT report ongoing ties with their interns.

Funding: In FY1994, the SABIT program received a total of \$5 million (\$2 million in May and \$3 million in September) in addition to the \$4 million already received in FY1992 and FY1993, bringing the total funding over the life of the program to \$9 million. SABIT's obligations and disbursements increased significantly in FY1994.

The total amount of award moneys obligated over the life of the program is approximately \$5 million. This includes \$1,246,247 obligated during FY1994, \$959,110 obligated in the first quarter of FY1995, and \$400,000 of awards in process which SABIT anticipates obligating in the next two months.

The total amount of award moneys disbursed over the life of the program is approximately \$970,000, which includes \$644,553 disbursed during FY1994 and approximately \$325,447 disbursed during the first quarter of FY1995.

The total amount of administrative expenditures over the life of the program is \$656,650, which includes \$273,110.38 disbursed in FY1994 and approximately \$93,249.14 disbursed during the first quarter of FY1995.

SABIT has made the \$7.5 million of funding available, as received, through four rounds of competition. During the first round of funding, from March to April, 1992, SABIT received applications from 58 U.S. organizations interested in hosting NIS interns, and awarded funds for 54 internships. Under the second round, from May to June 1992, SABIT received 72 U.S. applications and funded 150 internships. The third round, from July to November 1993, attracted 110 U.S. applications and resulted in the funding of 198 internships. Through the fourth round, from May to December, 1994, SABIT anticipates funding an additional 200 internships.

NIS Participants: SABIT continuously endeavors to diversify the program by increasing the number of non-Russian interns. While the program has achieved notable success in this

effort--for example, from FY1993 to FY1994, the percent of non-Russian SABIT interns increased by 10.4 percent--it remains a challenge since many of the U.S. organizations interested in doing business in the NIS are Russocentric and not willing to consider sponsoring interns from other parts of the NIS. A breakdown of SABIT interns' home countries follows:

In the first round, SABIT funded 1 intern from Armenia, 1 from Kazakhstan, 44 from Russia, 5 from Ukraine, and 3 who have not yet been named.

In the second round, SABIT funded 9 interns from Belarus, 1 from Kazakhstan, 1 from the Kyrgyz Republic, 1 from Moldova, 110 from Russia, 19 from Ukraine, 1 from Uzbekistan, and 8 who have not yet been named.

In the third round, SABIT funded 7 interns from Belarus, 5 from Georgia, 8 from Kazakhstan, 73 from Russia, 24 from Ukraine, 2 from Uzbekistan, and 79 who have not yet been named.

Of the interns funded and selected under the fourth round to date, 29 are from Russia and 7 from Ukraine.

Follow-up: To further encourage U.S.-NIS collaboration and trade, SABIT provides several follow-up support services for the interns after they have returned to the NIS, including an Alumni Network. SABIT has made an effort to involve the alumni in administering the network in the hopes that it can become "their" organization while maintaining support from SABIT. Though not yet at that stage, progress has been made in that direction.

In March 1994, Commerce Secretary Brown inaugurated the SABIT Alumni Network, which includes all of the NIS executives and scientists who have completed their SABIT training in the United States. Currently, there are 270 alumni in the network.

Since the inception of the Alumni Network, SABIT has hosted four alumni functions in Moscow, Kiev and Minsk, providing a forum for them to network among themselves and with the U.S. business community in the NIS.

SABIT publishes an alumni directory of contact information to enable the former interns to communicate with one another.

In 1994, SABIT began publishing a quarterly newsletter, The SABIT Exchange, which is distributed to SABIT companies and alumni. The newsletter includes stories about successful post-internship business relationships between NIS alumni and their SABIT host companies, as well as useful industry information, conference schedules, and details about upcoming SABIT Alumni Network events.

SABIT has found it challenging to distribute the newsletter to the alumni in the NIS due to the unreliable mail system there; however, the program plans to make the publication available by electronic mail and at several sites in the

NIS, including the American Business Centers, to further its distribution range.

Successes: Overall, the SABIT Program has been very effective in supporting the NIS's transition to a market economy while fostering long-term U.S.-NIS business and scientific collaboration. As of December 1994, approximately \$10 million dollars in export revenues have resulted from the U.S.-NIS business relationships facilitated through SABIT. It is anticipated that an additional \$20 million will come to fruition in 1995. Following are several success stories that exemplify the impact of the SABIT Program.

Shelter Systems, a New Jersey housing company, provided Sergey Kolegov with six months of management training. Since the internship, Shelter and Kolegov signed a contract to supply \$400,000 of housing supplies to Russia. Moreover, as a direct result of their contact with Kolegov and their other five SABIT interns, Shelter has completed business contracts totaling \$3.5 million.

Goodnature Products, of Buffalo, New York, provided Sergey Ganieukov, from Almaty, Kazakhstan, with six months of management training in U.S. methods of sales and marketing for the food processing industry. Since Ganieukov's return to Almaty, Goodnature has sold \$410,000 of their juice extraction equipment to Kazakhstan.

Jack Walters & Sons, a Wisconsin company, booked over \$1 million in sales to Russia after they trained two managers from western Siberia for three months through the SABIT program.

Tyler Limited Partnership, of Benson, Minnesota, maintains ties with both of their interns, Andrey Skotnikov and Vladimir Bobrov, from Minsk, Belarus. The six-month internships focused on the fine-tuning of important precision agriculture equipment, on which Tyler and the interns continue to collaborate, in the hopes of selling the final product both in the U.S. and the NIS. Further, since his return to Belarus, Mr. Skotnikov has successfully facilitated the sale of \$2 million worth of Tyler's agricultural equipment to companies in the NIS.

Means Company, Inc., a Massachusetts company provided Svetlana Tabakova with six months of management training. Since the internship, R.S. Means and Tabakova's company have established a joint marketing alliance through which they have earned \$20,000 in revenue by providing construction information services throughout the NIS.

Aquila Technologies Group, a New Mexico company that has participated in three of SABIT's rounds and received funding for 13 interns, formed a joint venture with two of their former SABIT interns, through which they have exported approximately \$750,000 of computer products to Russia. Steven Kadner of Aquila remarked, "The SABIT Program has been helpful to Aquila in establishing business relationships in the NIS. The program helps to defray the expense involved with bringing the interns to the U.S. to

experience first hand the operation of an American small business. We believe that...our interns will become very successful business men [sic] in their homeland."

Specialized Training for NIS Standards Experts

In September 1994, SABIT received \$1.5 million from the FREEDOM Support Act to develop and implement a specialized training program for standards experts from the NIS. The goal of this initiative is to improve product standards and quality control in the NIS while boosting U.S. trade with the region. SABIT is collaborating with the Department of Commerce's National Institute of Standards and Technology (NIST), with assistance from the American National Standards Institute (ANSI), to develop a comprehensive standards training program for 100 qualified engineers, administrators, and technical and regulatory experts from the NIS. The two-month training program will familiarize these experts with U.S. government and private-sector processes and procedures for standards development, conformity assessment and quality management. Moreover, the understanding and cooperation developed through this program will facilitate the development and use of harmonized international standards, which will enhance the competitiveness of U.S. products in the NIS, thereby increasing U.S. exports to the region.

100 NIS standards experts will receive two months of hands-on exposure to U.S. standards-related processes.

The training will be provided consecutively to groups of approximately 20 NIS experts from each of five proposed target sectors, including automotive, medical equipment, telecommunications, infrastructure and aerospace.

The training will include a two-week orientation hosted by the NIST Office of Standards Services, to provide an overview of the U.S. standards process and federal and private sector roles, followed by six weeks of intensive training with various U.S. companies, private-sector standards developers, testing laboratories, product certifiers, and quality system registrars.

The first training session, scheduled to begin in February, 1995, will focus on the automotive sector.

BILATERAL INVESTMENT TREATIES (BITs)

Since the USSR's demise, the NIS--knowing their huge need for foreign capital--have pursued bilateral investment agreements with a wide range of partners. The process of negotiating such agreements has given the U.S. a unique forum for propounding the need for a stable, predictable legal framework in the NIS to protect and encourage foreign investment.

At the time of last year's annual report, the United States had concluded bilateral investment treaties (BITs) with five countries of the NIS--Russia, Armenia, Kazakhstan, the Kyrgyz Republic and Moldova--of which none had entered into force, and discussions were underway with several more. As

of December 31, 1994, the U.S. has signed BITs with all but three NIS countries, three of which have entered into force:

Armenia: The BIT was signed 9/23/92 and ratified by the U.S. 1/3/94. The treaty awaits ratification by the Armenian Parliament.

Azerbaijan: No BIT negotiations underway, but a copy of the U.S. prototype BIT sent to Baku 12/94.

Belarus: A BIT was signed 1/15/94. The treaty must now be ratified by both Parties.

Georgia: A BIT was signed 3/7/94. The treaty must now be ratified by both Parties.

Kazakhstan: A BIT was signed 5/19/92, and came into force 1/12/94.

Kyrgyz Republic: A BIT was signed 1/19/93, and came into force 1/12/94.

Moldova: A BIT was signed 4/21/93, and came into force 11/25/94.

Russian Federation: A BIT was signed 6/22/92. The Treaty was ratified by the U.S. 10/92, but continues to await ratification by the Russian legislature.

Tajikistan: BIT negotiations underway.

Turkmenistan: BIT negotiations underway.

Ukraine: A BIT was signed 3/4/94. The treaty has been ratified by the Ukrainian Parliament, and is awaiting ratification by the U.S. Senate.

Uzbekistan: A BIT was signed 12/16/94. The treaty must now be ratified by both Parties.

GENERALIZED SYSTEM OF PREFERENCES (GSP)

The Generalized System of Preferences (GSP) program is an autonomous and temporary program of duty-free preferences granted by the United States to developing countries. The primary purpose of the GSP is to promote the economic growth and industrialization of beneficiary developing countries, and to promote the idea that trade, rather than aid, is the most effective, cost-efficient way of promoting broad-based sustained development. Under GSP, beneficiary developing countries may export items duty-free to the United States. Approximately 4400 tariff-schedule items not deemed "import-sensitive," including a wide variety of agricultural and industrial goods, receive GSP.

With the signing of the Uruguay Round package by President Clinton on December 8, 1994, the GSP program was extended until July 31, 1995. A number of the successor states to the Soviet Union are now GSP beneficiaries: Russian, Ukraine, Belarus, Kazakhstan and the Kyrgyz Republic. Armenia has applied for GSP status and will receive GSP benefits soon.

COCOM AND EXPORT CONTROLS

The U.S. and COCOM partners terminated the COCOM export control arrangement on March 31, 1994, given that the Cold War rationale on which COCOM was established is no longer operative. At the same time, the COCOM partners agreed to maintain the ability to control to all destinations on a national basis items on the former COCOM lists, and to work to establish a framework for a new arrangement designed to

deal with new threats to peace and stability. This new export control arrangement would enhance mutual security through greater transparency and responsibility in trade in arms and sensitive dual-use technologies. Partners endorsed general principles and membership criteria for the new arrangements in a high-level meeting in March 1994. Discussions on guidelines and lists for the new arrangement are continuing.

Partners also welcomed early participation by Russia, the NIS, and countries in Central Europe, consistent with the agreed membership criteria. These criteria include adherence to responsible transfer policies, nonproliferation policies and guidelines, and effective export controls. The interagency effort led by the State Department to negotiate and provide export control assistance to the four nuclear states--Kazakhstan, Belarus, Russia and Ukraine--produced important results in 1994. In December 1993, Kazakhstan and Ukraine each signed an implementing agreement to the SSD Umbrella agreement for assistance to establish effective export control systems to prevent the proliferation of weapons of mass destruction.

From January to September 1994, several policy-level technical exchanges took place with Ukraine and Kazakhstan that enabled technical assessment to be complete for procurement of automation equipment for licensing and enforcement. Also, some basic training on the essential components of an effective export control took place.

Russia signed a memorandum of intent for cooperation with the U.S. on export control assistance in January 1994. In addition, the Joint Statement issued by Presidents Clinton and Yeltsin after their September summit reiterated both sides intention to proceed with export control cooperation.

During FY1994, Belarus (which signed the implementing agreement for export control assistance in 1992) received approval for substantial procurement of automation equipment needed for export licensing and enforcement. The project also supported assessment visits, bilateral meetings, and technical exchanges, including a training session for Belarusian export licensing and enforcement officials.

Consistent with post-COCOM policies, the U.S. substantially liberalized licensing requirements to formerly COCOM-proscribed destinations, including Russia and countries of the NIS. The Department of Commerce created, on April 4, 1994, a new general export license, GLX, for exports of less sophisticated items on the control lists to civil end-users and end-uses in these countries. As a result of this and other liberalizations, U.S. exporters may now ship most computers and telecommunications equipment to civil end-uses in Russia and the NIS without prior USG review.

MOST FAVORED NATION STATUS (MFN)

All the NIS remain subject to Title IV of the Trade Act of 1974, 19 U.S.C., et seq. Countries subject to Title IV may gain MFN status only by fulfilling two basic conditions: 1) compliance with the law's freedom of emigration provisions

(known as the Jackson-Vanik amendment) and 2) conclusion of a bilateral commercial (trade) agreement with the United States providing for reciprocal nondiscriminatory treatment. Alternatively, the President may waive the objective of freedom of emigration.

President Clinton in 1993 acted under authority granted in Title IV to waive for all of the 12 NIS the requirement of full compliance with the Jackson-Vanik freedom of emigration requirements. The waivers were granted after each of NIS government provided assurances on freedom of emigration and the President concluded that a waiver in each case would substantially promote freedom of emigration.

After consultation with the Congress, the United States also proposed that each of the NIS meet the Title IV requirement of a bilateral trade agreement by ratifying the U.S.-Soviet Trade Agreement approved by Congress in November 1991, with only some technical adjustments being made to reflect the new independent status of each country. Once a trade agreement was approved and other formalities completed, MFN status would be granted. On September 21, 1994, President Clinton determined and reported to Congress that the Russian Federation was in full compliance with the criteria of the Jackson-Vanik Amendment, thereby obviating the need for annual renewal of a waiver of the Jackson-Vanik provisions. Sections 402 and 409 of the Trade Act of 1974 require the submission to Congress of updated reports on or before each ensuing June 30 and December 31.

The status of all 12 NIS with regard to such bilateral trade agreements as of January 15, 1994 was as follows:

Armenia: A bilateral trade agreement granting reciprocal MFN status was signed and entered into force on April 2, 1993.

Azerbaijan: A bilateral trade agreement was signed in April 1993 but awaits ratification by the Azerbaijani Parliament.

Belarus: A bilateral trade agreement granting reciprocal MFN status entered into force on February 16, 1993.

Georgia: A bilateral trade agreement granting reciprocal MFN status entered into force on August 13, 1993.

Kazakhstan: A bilateral trade agreement granting reciprocal MFN status entered into force on February 18, 1993.

Kyrgyz Republic: A bilateral trade agreement granting reciprocal MFN status entered into force on August 21, 1992.

Moldova: A bilateral trade agreement granting reciprocal MFN status entered into force on July 2, 1992.

Russian Federation: A bilateral trade agreement granting reciprocal MFN status entered into force on June 17, 1992.

Tajikistan: A bilateral trade agreement granting reciprocal MFN status entered into force November 24, 1993.

Turkmenistan: A bilateral trade agreement granting reciprocal MFN status entered into force October 23, 1993.

Ukraine: A bilateral trade agreement granting reciprocal MFN status became effective June 22, 1992.

Uzbekistan: A bilateral trade agreement granting reciprocal MFN status became effective January 13, 1994.

V. SMALL BUSINESS DEVELOPMENT PROGRAMS

A key element of the U.S. assistance program in reforming NIS are projects designed to support, cultivate and expand the development of a small business sector. We believe that the establishment of a thriving, broad-based small business sector in the NIS could play a key role in the economic reform process ongoing in the NIS. Private, small businesses can provide jobs for many of the workers displaced as a result of the restructuring of large, inefficient former state-owned enterprises. A number of different organizations and agencies are involved in this process, each focusing on a specific area of assistance. Although there are a variety of organizations involved in the program--working in a wide variety of NIS locations--the Coordinator's office has taken steps to improve communication between the different groups in an effort to create synergistic relationships where possible. For example, Peace Corps small business advisors work with grant and financing agencies, such as the Russian-American Enterprise Fund, to help Russian small business people prepare business plans as part of the loan application procedure.

Some small business development assistance providers receive their funding through the FREEDOM Support Act via USAID contracts or contracts with other U.S. Government organizations. One group, the International Executive Service Corps (IESC) receives funding from both USAID and the Cooperative Threat Reduction program. Other organizations, such as the Citizens' Democracy Corps, receive funding from independent sources as well as USAID. Small business development programs also are incorporated into a number of the USAID sectoral programs described below, including Food Systems Restructuring, Private Sector Initiatives, and the NIS Exchanges and Training Project. Other small business projects include the Commerce Department's SABIT and American Business Center programs, the U.S. Information Agency's "Business for Russia" training program, the Peace Corps' business advisor program, USDA's Emerging Democracies program, and the Eurasia Foundation. Each of these programs is described in detail in previous sections of the Annual Report.

In addition to the organizations providing direct technical assistance or training, a number of financial institutions have also established lending programs designed specifically to address the needs of small business. These institutions, which are also described in other parts of the Annual Report, include the Russian-American Enterprise Fund, the West NIS Enterprise Fund, the Central Asian-American Enterprise Fund, the EBRD Regional Venture Fund in the Lower Volga Region, the EBRD Russia Small Business Fund, and the Overseas Private Investment Corporation.

VI. COOPERATIVE THREAT REDUCTION PROGRAM

Congress initiated the Cooperative Threat Reduction (CTR) or "Nunn-Lugar" program in FY1992 to reduce the threat to the U.S. from weapons of mass destruction which remained in the New Independent States (NIS) after the demise of the Soviet Union. Through the CTR program, the Department of Defense

provides assistance to the eligible states of the NIS-- Russia, Ukraine, Kazakhstan and Belarus-- to promote denuclearization and demilitarization and to reduce the threat of weapons proliferation. The U.S. seeks to ensure that the number of nuclear states does not increase as a consequence of the break-up of the former Soviet Union and that there are means of helping these states to fulfill their policies of denuclearization. The U.S. also seeks to promote the safe and secure custody and control of the legacy of Soviet weapons of mass destruction on Russian territory and to promote their rapid elimination. Pursuant to legislative requirements, the CTR program provides--under separate cover--detailed semi-annual reports to Congress.

Congress authorized transfer authority of \$400 million annually in FY1992 and FY1993 to fund the CTR program and provided a direct appropriation of \$400 million annually for FY1994 and FY1995. However, as Congress has declined to carry over a total of \$330 million of the FY1992-FY1993 transfer authority, the total available obligational authority for the CTR program from FY1992-95 is \$1,270 million, not \$1,600 million. Nearly \$969 million has been proposed to be obligated, as required by Congress, to support CTR projects and \$898 million of these funds are committed under 36 project implementing agreements signed with the NIS.

Implementation of the CTR program has improved significantly, particularly over the past year, with the baseline obligation rate increasing over four-fold, to over \$434 million at the end of FY1994. The rapid acceleration of the CTR implementation process was due to completion in FY1994 of numerous ongoing negotiations with the NIS governments and progress in defining technical requirements and awarding contracts.

CTR activities have contributed significantly to the reduction of the threat from weapons of mass destruction in the NIS. Offers of assistance under the program have been instrumental in convincing Belarus, Kazakhstan, Russia and Ukraine that they could shoulder the economic, political and technical responsibilities of weapons dismantlement and demilitarization.

The CTR assistance agreement signed with Ukraine in December 1993 paved the way for the January 14, 1994, Trilateral Statement between the United States, Russia and Ukraine, which established a timetable for the early withdrawal of all nuclear warheads from Ukraine. At the end of FY1994, Ukraine was on schedule, having sent 360 warheads to Russia for dismantlement. CTR assistance also played a very significant role in encouraging Ukrainian accession to the Nuclear Non-Proliferation Treaty in November 1994.

In Kazakhstan, the relationships developed through CTR efforts were instrumental in the Kazakhstani decision to seek U.S. assistance in safeguarding 600 kg of weapons-grade uranium--a remnant of Soviet nuclear activity in Kazakhstan. CTR assistance also provided a portion of the compensation to the Kazakhstanis for the uranium which, under Project Sapphire, the U.S. repackaged and transported

to safe storage in the U.S.

These political relationships are a central benefit of the CTR program. CTR program funds also are used directly to stimulate and support faster dismantlement in the NIS and to enhance nonproliferation efforts. CTR assistance has provided political and material support for:

Removing from deployment roughly 1,600 strategic nuclear warheads in Ukraine, Belarus and Kazakhstan, of which 900 have been returned to Russia for dismantlement;

Helping to deactivate and eliminate SS-19 and SS-24 intercontinental ballistic missiles (ICBMs) in Ukraine and to destroy ICBM silos in Kazakhstan;

Helping Russia to dismantle ICBMs, SLBMs and strategic bombers;

Re-employment of 4,000 former Soviet weapon scientists on peaceful civilian research projects; and

Hiring a U.S. prime contractor in Russia to provide a comprehensive plan for chemical weapons destruction;

Supporting over 150 individual defense and military contacts and exchanges with the NIS;

Contracting with U.S. firms to form joint ventures with NIS enterprises that have long manufactured weapons of mass destruction, to help convert them to commercially viable and peacefully oriented businesses;

Providing over 7,000 items for dismantlement assistance; and

strengthening defense and military cooperation and ties through a program that supported over 100 contacts in 1994.

Specific assistance committed to each of the eligible NIS includes:

Russia: The Department of Defense has committed up to \$450.7 million in CTR assistance to the Russian Federation for materials, training and services pursuant to the umbrella agreement, eleven implementing agreements and one memorandum of understanding that have been signed under the CTR program. An additional \$22.3 million of assistance has been proposed to be obligated and draft agreements tabled, bringing the total to \$473 million in assistance. Additionally, \$20 million for Arctic Nuclear Waste Assessment and \$10 million for the Research and Development Foundation, projects which have no implementing agreements but require Russian cooperation, have been notified to Congress and counted in the total amount proposed to be obligated for Russia. Thus, notifications of proposed obligations of CTR funds total approximately \$503 million for Russia. Assistance is being provided for: Strategic Offensive Arms Elimination; Emergency Response Equipment and Training; Fissile Material Storage Facility Design and Equipment, Rail Car Enhancement Kits, Fissile Material Storage Containers; the International Science and Technology

Center, a Chemical Weapons Destruction implementation plan; Material Control and Accounting and Physical Protection (MC&A and PP) improvements; Defense Conversion and Defense and Military Contacts.

Ukraine: The Department of Defense is committed to provide Ukraine up to \$277 million of CTR assistance in materials, training and services pursuant to the umbrella agreement, six implementing agreements, an agreement covering the Multilateral Nuclear Safety Initiative and a memorandum of understanding. Approximately \$112 million has been obligated for Ukrainian assistance projects. Some elements of the program have been delayed due to the uncertainty of Ukrainian specifications for assistance as well as access to FY1993 reprogrammed funds. Remaining funds will be obligated per existing program schedules. Projects include: Export Controls assistance; a Government-to-Government Communications Link; Emergency Response Equipment and Training; Strategic Nuclear Arms Elimination (SNAE); Defense Conversion; Nuclear Materials Control & Accountability and Physical Protection (MC&A and PP) improvements support for the Science and Technology Center-Ukraine (STCU); Multilateral Nuclear Safety Initiative; and Defense and Military Contacts.

Kazakhstan: Under the CTR Program, the Department is committed to provide the Republic of Kazakhstan up to \$100 million of assistance in materials, training and services, pursuant to the umbrella agreement, six implementing agreements and a memorandum of understanding that have been signed between the two countries. Total notifications of proposed obligations to Congress are for the same amount. Assistance is being provided for: Strategic Offensive Arms Elimination; Government to Government Communications Link (GGCL); Emergency Response Equipment and Training; Export Control; Material Control and Accounting and Physical Protection (MC&A and PP); Defense Conversion; and Defense and Military Contacts.

Belarus: The Department of Defense is committed to provide the Republic of Belarus up to \$70 million of assistance in materials, training and services, pursuant to the umbrella agreement, five implementing agreements and a memorandum of understanding that have been signed with the Ministry of Defense of Belarus. An additional \$6.0 million has been notified to Congress; however, additional technical discussions are necessary to define a program of assistance for strategic offensive arms elimination. The total amount of the notifications of proposed obligations for Belarus, is up to \$76 million. Projects include assistance with: Emergency Response Equipment and Training, Export Control; Continuous Communications Link (CCL); Site assessment and remediation assistance for the Postavy Strategic Rocket Forces base under Project PEACE; Defense Conversion, and Defense and Military Contacts. Discussions continue to further define the Strategic Offensive Arms Elimination project.

Defense Enterprise Fund: The Defense Demilitarization enterprise Fund was incorporated on March 8, 1994. Over the next three months, the Board was selected and approved, with

Randolph Reynolds as the Chairman. Kevin MacDonald was later named CEO. The Charter and terms of the initial \$7.67 million grant were negotiated and the first grant was issued to the Fund on June 23, 1994. the Fund is to provide financial support for industrial partnerships involving defense enterprises in the former Soviet Union and U.S. companies. These partnerships will facilitate the demilitarization of NIS defense industries and the conversion of military technologies and capabilities into civilian commercial activities. The Fund has approved three project proposals; two in Russia and one in Belarus--for a total of \$4.8 million in DEF investments.

The CTR Program has been a relatively small investment with an extraordinary return. The U.S. spent hundreds of billions of dollars defending against weapons of mass destruction in the Soviet Union during the Cold War. With CTR assistance, substantial progress has been made in reducing the ongoing threat from these weapons and in preventing the emergence of new threats in the post-Cold War world.

VII. USDA FOOD AID PROGRAMS FOR THE NIS

This assistance is being provided through:

Section 416(b) donation programs, using commodity inventories owned by the Commodity Credit Corporation (CCC)
The Food for Progress grant program using CCC funds
The Food for Progress grant program funded under Public Law 480, Title I
Public Law 480, Title I concessional sales

The first two are food donation programs where PVOs handle distribution; the latter two are government-to-government programs. U.S. agricultural commodities provided to the NIS under these programs include wheat and wheat flour, corn, rice, soybean meal, vegetable oil, butter/butteroil, dairy products, lentils, peas and beans.

During fiscal 1994, these programs totaled more than 850,000 metric tons with a commodity value of approximately \$220 million and freight costs of approximately \$70 million. A description of the program in each NIS follows.

Armenia

In FY1994, USDA donated \$57 million of food aid under government-to-government and PVO programs. USDA purchased 120,000 metric tons of wheat under a \$35 million government-to-government program. In addition, USDA donated approximately 23,700 metric tons of commodities to Armenia through two private voluntary organizations, Fund for Armenian Relief (FAR) and Cooperative for Assistance and Relief Everywhere (CARE). FAR distributed to hospitals, orphanages, sanitariums and refugee centers, serving approximately 200,000 meals each day. CARE successfully distributed USDA commodities to over 1.6 million beneficiaries in the Caucasus region. Without these programs, vulnerable groups among the general population would have been unable to meet their food needs.

Azerbaijan

In FY1994, USDA donated approximately 20,000 metric tons of commodities to PVOs for distribution in Azerbaijan. CARE is in the process of distributing approximately 14,000 metric tons of food to displaced families in Azerbaijan. A portion of CARE's food donation is going directly to the American Red Cross refugee camps. In addition, Adventist Development and Relief Agency is distributing 6,700 metric tons of emergency food assistance to the refugees, displaced persons, and other extremely vulnerable populations of Azerbaijan.

Belarus

USDA provided 120,000 metric tons of soybean meal and corn, valued at \$27.5 million in a government-to-government concessional sales program to help Belarus meet its animal feed shortfall. USDA also provided 888 metric tons of baby food valued at \$700,000 to CitiHope International, a PVO. The program enabled CitiHope to feed needy children in hospitals and clinics in Belarus.

Georgia

USDA food assistance to Georgia in FY1994 totaled approximately \$40 million. Government-to-government donations provided 125,000 metric tons of wheat at a cost of \$25 million. Under the Food for Progress program, two U.S. private voluntary organizations, Salvation Army World Services Organization (SAWSO) and CARE provided 14,000 metric tons of high-value commodities to individuals affected by ethnic clashes and civil war. Food for Progress donations have helped to maintain the food supply to the population and reduce the potential for threatening levels of social unrest.

Kyrgyz Republic

In FY1994, USDA donated 60,000 metric tons of wheat, valued at \$16 million, to the Kyrgyz Republic under a government-to-government program. USDA donated 3,600 metric tons of commodities to Mercy Corps International for implementation of monetization, food for work, and direct emergency distribution programs in the Kyrgyz Republic. In addition, the American National Red Cross successfully distributed 3,200 metric tons of commodities to pensioners, the disabled, large single parent families, and refugees from Tajikistan.

Kazakhstan

USDA provided approximately 3,500 metric tons of butteroil and nonfat dry milk to Mercy Corps International (MCI) for a commodity monetization program in Kazakhstan in FY1994. The proceeds from MCI's program were used to promote the development of agricultural service organizations and private sector agriculture, and support primary health care training programs and services.

Moldova

The majority of food assistance to Moldova in 1994 was provided under a \$20 million government-to-government concessional sales program that shipped over 100,000 metric tons of food and animal feed. In addition, 400 tons of butter worth approximately \$530,000 was provided to the PVO Global Jewish Assistance Relief Network for distribution to needy groups, hospitals and schools.

Russia

USDA signed three Section 416(b) agreements with a commodity value of over \$21 million with U.S. PVOs working in the Russian Federation: the Fund for Democracy and Development, Feed the Children, and Land O'Lakes. The latter provided butter to be sold to generate proceeds to make grants and/or low-interest loans to private agricultural organizations and farmers for dairy and agricultural equipment purchases.

USDA also provided commodities under the Food for Progress program to three PVOs working in Russia: Catholic Relief Services (CRS) for its work in the Russian Far East, Partners in International Development for distribution to a pediatric hospital in St. Petersburg, and the National Cooperative Business Association to establish a revolving loan fund for food processing and distribution enterprises.

Tajikistan

In FY1994, Tajikistan faced a one million metric ton shortfall in domestic wheat stocks due to declines in production and imports that resulted from the disintegration of the centralized economy. In response to this need, USDA signed a government-to-government Food for Progress agreement to provide 35,000 metric tons of wheat to the Tajikistani government. USDA donated an additional 15,000 metric tons of commodities to Tajikistan through three PVOs to alleviate the food needs of targeted populations in Tajikistan. The three PVOs were the Aga Khan Foundation, Save the Children, and Mercy Corps International.

Ukraine

In FY1994 USDA provided 85,000 metric tons of soybean meal, worth \$20 million, to Ukraine under the P.L. 480, Title I concessional sales program. In addition, a PVO, Lishkas Ezras Achim (LEA), distributed 1,300 metric tons of CCC surplus butter valued at \$2.1 million. This distribution was done in tandem with other commodities received through private funding--altogether LEA provided daily meals to thousands of children in orphanages and other institutions.

Uzbekistan

USDA donated 2,000 metric tons of butteroil to Uzbekistan through Mercy Corps International, which monetized the commodity and used the to promote agricultural service organizations and primary health care training programs and services.

VIII. HUMANITARIAN ASSISTANCE PROGRAMS

The Humanitarian Division of the Office of the Coordinator to the New Independent States (NIS), S/NIS/C, is responsible for coordinating and facilitating emergency and transitional humanitarian assistance through 16 U. S. government agencies and several international organizations to the NIS. Throughout calendar year 1994 this division expended an approximate budget of \$55 million to leverage and facilitate the movement of privately donated and USG funded humanitarian commodities valued at approximately \$351.8 million into the areas of critical need within the 12 countries of the NIS.

Through a contract with Military Professional Resources Incorporated (MPRI), acting as its agent, S/NIS/C transported to the NIS some \$198.2 million in donated commodities from over 298 private volunteer organizations collected in 235 cities at a cost to the USG of \$14.3 million. Additionally, using DoD transport and coordination teams funded at approximately \$4.7 million, the Humanitarian Division coordinated delivery of over \$36.2 million in DoD excess medical equipment and supplies to 18 hospitals in Moldova, Kazakhstan, Belarus and the Kyrgyz Republic. DoD transport was used also to deliver privately donated medical supplies and equipment valued at over \$69.9 million at a cost to the USG of \$4.8 million to Russia, Moldova, Armenia, Georgia, Azerbaijan, Tajikistan, Ukraine, Kazakhstan and the Kyrgyz Republic.

Throughout 1994, the Humanitarian Division has used its funds to facilitate and to leverage the movement of USG and privately donated commodities to countries within the NIS. Personnel of the Humanitarian Division have traveled throughout the NIS and Europe coordinating humanitarian emergency assistance to the region. S/NIS/C was the focal point within the USG during the past year in support of an international appeal for humanitarian assistance to the Caucasus. It led a U.S. delegation to Brussels to help in the coordination of over \$256 million in European Union (EU) assistance to this region, Tajikistan and Moldova. Additionally, it worked closely with the World Food Program, funding its Caucasus Logistics Advisory Unit (CLAU) for approximately \$2.8 million, to insure the movement of U.S. and EU food and fuel commodities through Georgia into all three countries of the Caucasus. A key element of this program was the leasing from Russia of 10 pair of 3000 HP diesel locomotives and the purchase of the fuel to run them through the spring of 1995. These locomotives, not limited by inherent shortages of Georgian electricity, have aided significantly in the uninterrupted flow of humanitarian commodities to Armenia, Georgia and Azerbaijan.

The Humanitarian Division has used its budget throughout 1994 to fund an assortment of humanitarian programs aimed at emergency and transitional assistance based on need and reform in the NIS. Whether transporting wheat seed and fuel oil to the Caucasus, emergency medical supplies to Primorsky kray, or a Magnetic Resonance Imager (MRI) to the Ukraine, this division has attempted to leverage the limited U.S. dollars available to make a difference. Attached you will

find a country by country breakdown of humanitarian assistance provided through the Coordinator's Office.

ARMENIA HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Armenia. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	17/-	1.84	22.47
FY 92 Surface	-/4	.02	2.8
Operation Provide Hope II (Food & Med.)	.1		1.06
FY 92 Total	17/4	1.96	26.33
		TOTAL:	28.29
FY 93 Airlift	22/-	3.05	7.78
FY 93 Surface	-/1024	6.08	23.92
Fuel Shipments (Mazout)		5.15	
FY 93 Total	22/1024	14.28	31.70
		TOTAL:	45.98
FY 94 Airlift	5/-	.70	10.35
FY 94 Surface	-/152	1.6	5.93
Japanese Kerosene		.5	
Fuel Shipments (Mazout)		3.0	
ATG Winter Wheat Seed		1.0	
Caucasus Logistics Assistance Unit			1.75
CARE Grant			.09
FY 94 Total	5/152	6.8	18.12
		TOTAL:	24.92
FY 95 Airlift	1/-	.11	.30
FY 95 Surface	-/46	.37	2.74
Fuel Shipments (Mazout)		.75	
FY 95 Total	1/46	1.23	3.04
		TOTAL:	4.27
CUMULATIVE TOTAL	45/1226	24.27	79.19
		CUMULATIVE TOTAL VALUE:	103.46

AZERBAIJAN HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Azerbaijan. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	5/-	.22	8.8
FY 92 Surface	-/2	.02	.42
Operation Provide Hope II (Food & Med.)		.3	1.3
FY 92 Total	5/2	.54	10.52
		TOTAL:	11.06
FY 93 Airlift	4/-	.13	.92
FY 93 Surface	-/-		
FY 93 Total	4/-	.13	.92
		TOTAL:	1.05
FY 94 Airlift	8/-	.6	4.7
FY 94 Surface	-/4	.01	.4
Relief International Grant			.04
FY 94 Total	8/4	.61	5.14
		TOTAL:	5.75
FY 95 Airlift	/-		
FY 95 Surface	-/4	.02	.60
FY 95 Total	/4	.02	1.60
		TOTAL:	1.62
CUMULATIVE TOTAL	17/10	1.30	18.20

CUMULATIVE TOTAL VALUE: 19.50

BELARUS HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Belarus. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	8/-	.41	13.36
FY 92 Surface	-/8	.01	.17
FY 92 Total	8/8	.42	13.53
		TOTAL:	13.95
FY 93 Airlift	3/-	.27	3.05
FY 93 Surface	-/75	.51	10.42
FY 93 Total	3/75	.78	13.47
		TOTAL:	14.25
FY 94 Airlift	2/-	.21	1.82
FY 94 Surface	-/113	.45	12.32
Hospital		1.5	11.2

FY 94 Total	2/113	2.16	25.34
		TOTAL:	27.5
FY 95 Airlift	/-		
FY 95 Surface	-/27	.23	5.52
FY 95 Total	/27	.23	5.52
		TOTAL:	5.75
CUMULATIVE TOTAL	13/223	3.59	57.86
		CUMULATIVE TOTAL VALUE:	61.45

GEORGIA HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Georgia. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	19/-	1.04	17.38
FY 92 Surface	-/-		
DoD Excess Hospital		2.0	15.0
ACTS Grant			.05
Operation Provide Hope II (Food & Med.)		.1	1.92
FY 92 Total	19/-	3.14	34.35
	TOTAL:	37.49	
FY 93 Airlift	10/-	.89	9.90
FY 93 Surface	-/386	2.33	22.71
ACTS Grant			.46
Fuel Shipment (Mazout)		5.15	
FY 93 Total	10/386	8.37	33.07
	TOTAL:	41.44	
FY 94 Airlift	30/-	2.60	20.79
FY 94 Surface	-/184	1.19	29.59
Japanese Kerosene		.3	
Fuel Shipment (Mazout)		2.0	
ACTS Grant			.7
CARE Grant			.8
UMCOR Grant			.35
Caucasus Logistics Assistance Unit			1.75
FY 94 Total	30/184	6.09	53.98
	TOTAL:	60.07	
FY 95 Airlift	/-		
FY 95 Surface	-/26	.09	3.17
ACTS Grant			.46
CARE Grant			.04
FY 95 Total	/26	.09	3.67
	TOTAL:	3.76	

CUMULATIVE TOTAL	59/596	17.69	125.07
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CUMULATIVE TOTAL VALUE: 142.76

KAZAKHSTAN HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Kazakhstan. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	9/-	.9	22.0
FY 92 Surface	-/4	.03	.25
Operation Provide Hope II (Food & Med.)		.5	3.22
FY 92 Total	9/4	1.43	25.47
		TOTAL:	26.90
FY 93 Airlift	6/-	.9	9.8
FY 93 Surface	-/28	.2	1.4
FY 93 Total	6/28	1.1	11.2
		TOTAL:	12.3
FY 94 Airlift	3/-	.47	11.4
FY 94 Surface	-/226	.36	7.2
FY 94 Total	4/226	.83	18.6
		TOTAL:	19.43
FY 95 Airlift	5/-	.54	3.23
FY 95 Surface	-/142	1.79	3.37
DoD Excess Hospital			13.50
UMCOR Grant			.07
FY 95 Total	5/142	2.33	20.17
		TOTAL:	22.50
CUMULATIVE TOTAL	24/400	5.69	75.44

CUMULATIVE TOTAL VALUE: 81.13

KYRGYZ REPUBLIC HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to the Kyrgyz Republic. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST	VALUE
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		(millions)	(millions)
FY 92 Airlift	6/-	.37	10.4
FY 92 Surface	-/-		
Operation Provide Hope II (Food & Med.)			
		.1	2.15
FY 92 Total	6/	.47	12.55
		TOTAL: 13.02	
FY 93 Airlift	8/-	.86	5.61
FY 93 Surface	-/-		
DoD Excess Hospital		1.5	17.7
FY 93 Total	8/-	2.36	23.33
		TOTAL: 25.69	
FY 94 Airlift	5/-	.49	9.58
FY 94 Surface	-/18	.09	1.14
FY 94 Total	5/18	.58	10.72
		TOTAL: 11.30	
FY 95 Airlift			
FY 95 Surface	-/9	.05	.18
FY 95 Total	/9	.05	.18
		TOTAL: .23	
CUMULATIVE TOTAL	19/27	3.46	46.78
CUMULATIVE TOTAL VALUE: 50.24			

MOLDOVA HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Moldova. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	4/-	.2	7.5
FY 92 Surface	-/6	.05	.57
Operation Provide Hope II (Food & Med.) .3 1.1			
FY 92 Total	4/6	1.55	9.17
		TOTAL: 10.72	
FY 93 Airlift	4/-	.36	7.0
FY 93 Surface	-/109	.52	6.0
FY 93 Total	4/109	.88	13.0
		TOTAL: 13.88	
FY 94 Airlift	4/-	.09	.5
FY 94 Surface	-/55	.3	9.2
Hospital		1.2	12.5
Oil & Coal		4.1	
FY 94 Total	4/55	5.69	22.2

TOTAL: 27.89

FY 95 Airlift	-/-		
FY 95 Surface	-/35	.17	1.31
FY 95 Total	-/35	.17	1.31
		TOTAL:	1.48

CUMULATIVE TOTAL	12/235	8.44	46.88
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CUMULATIVE TOTAL VALUE: 55.32

RUSSIA HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Russia. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	65/-	5.53	130.94
FY 92 Surface	-/311	1.5	16.96
Heart to Heart Grant			.02
CARE Grant			2.0
Operation Provide Hope II (Food & Med.)		2.6	29.51
FY 92 Total	65/311	9.63	179.43
		TOTAL:	189.06
FY 93 Airlift	12/-	1.14	25.34
FY 93 Surface	-/1034	4.42	45.25
CARE Grant			1.81
CRS Grant			.17
Salvation Army Grant			.02
Operation Provide Hope III (MRE'S, Food)		2.63	40.0
DoD Excess Hospitals		1.7	36.0
FY 93 Total	12/1034	9.89	148.59
		TOTAL:	158.48
FY 94 Airlift	2/-	.31	8.2
FY 94 Surface	-/1176	4.39	86.44
FY 94 Total	2/1176	4.7	99.34
		TOTAL:	104.04
FY 95 Airlift	1/-	.05	.20
FY 95 Surface	-/227	1.24	21.65
FY 95 Total	1/227	1.29	21.85
		TOTAL:	23.14
CUMULATIVE TOTAL	80/2748	25.51	449.21

CUMULATIVE TOTAL VALUE: 474.72

TAJIKISTAN HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET

(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Tajikistan. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface. Section B consists of planned special projects which will be funded by the State Department (S/NIS/C), but have not been completed.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	8/-	.56	11.61
FY 92 Surface	-/4	.02	.21
Operation Provide Hope II (Food & Med.)		.2	2.49
FY 92 Total	8/4	.78	14.31
		TOTAL:	15.09
FY 93 Airlift	3/-	.34	1.28
FY 93 Surface	-/7	.05	.05
Aga Khan Grant			.28
FY 93 Total	3/7	.39	1.61
		TOTAL:	2.0
FY 94 Airlift	4/-	.57	3.1
FY 94 Surface	-/4	.02	.09
CARE Grant			.04
FY 94 Total	4/4	.59	3.23
		TOTAL:	3.82
FY 95 Airlift			
FY 95 Surface	-/8	.05	1.03
FY 95 Total	/8	.05	1.03
		TOTAL:	1.08
CUMULATIVE TOTAL	15/23	1.81	20.18
		CUMULATIVE TOTAL VALUE:	21.99

TURKMENISTAN HUMANITARIAN ASSISTANCE

S/NIS/C FACT SHEET

(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Turkmenistan. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINER	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	9/-	.77	12.53
FY 92 Surface	-/2	.02	.30

Operation Provide Hope II (Food & Med.)	.1	1.44
FY 92 Total	9/2	.89 14.27
		TOTAL: 15.16
FY 93 Airlift	3/-	.20 1.44
FY 93 Surface	-/-	
FY 93 Total	3/-	.20 1.44
		TOTAL: 1.64
FY 94 Airlift	5/-	.33 2.04
FY 94 Surface	-/1	.01 .18
FY 94 Total	5/1	.34 2.22
		TOTAL: 2.56
FY 95 Airlift	/-	
FY 95 Surface	-/	
FY 95 Total	-/-	
		TOTAL:
CUMULATIVE TOTAL	17/3	1.43 17.93
		CUMULATIVE TOTAL VALUE: 19.36

UKRAINE HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Ukraine. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	9/-	.7	19.3
FY 92 Surface	-/54	.24	2.2
Operation Provide Hope II (Medical)		.1	1.3
FY 92 Total	9/54	1.04	22.8
		TOTAL:	23.84
FY 93 Airlift	5/-	.39	3.6
FY 93 Surface	-/255	1.83	19.5
FY 93 Total	5/255	2.22	23.1
		TOTAL:	25.32
FY 94 Airlift	4/-	.53	12.3
FY 94 Surface	-/550	1.2	29.6
Counterpart Grant			.66
FY 94 Total	4/550	1.73	42.56
		TOTAL:	44.29
FY 95 Airlift	1/-	.05	1.36
FY 95 Surface	-/172	1.02	10.65
FY 95 Total	1/172	1.07	12.01
		TOTAL:	13.08

CUMULATIVE TOTAL 19/1031	6.06	100.08
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CUMULATIVE TOTAL VALUE: 106.14

UZBEKISTAN HUMANITARIAN ASSISTANCE
S/NIS/C FACT SHEET
(as of December 31, 1994)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Uzbekistan. This listing includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies and medical equipment) shipped by air and surface.

(Note: Containers are always surface shipments)

METHOD	FLIGHTS/CONTAINERS	TRANSPORT COST (millions)	VALUE (millions)
FY 92 Airlift	12/-	1.12	9.58
FY 92 Surface	-/-		
Operation Provide Hope II (Food & Med.)		.1	1.85
FY 92 Total	12/-	1.22	11.43
		TOTAL:	12.65
FY 93 Airlift	4/-	.31	4.68
FY 93 Surface	-/3	.03	.16
FY 93 Total	4/3	.34	4.84
		TOTAL:	5.18
FY 94 Airlift	1/-	.14	1.29
FY 94 Surface	-/33	.21	1.81
FY 94 Total	1/33	.35	3.10
		TOTAL:	3.45
FY 95 Airlift			
FY 95 Surface	-/15	.06	1.63
FY 95 Total	/15	.06	1.63
		TOTAL:	1.69
CUMULATIVE TOTAL 17/48		1.97	21.00

CUMULATIVE TOTAL VALUE: 22.97

IX. OTHER U.S. ASSISTANCE PROGRAMS IN THE NEW STATES

A number of U.S. Government agencies were involved in assistance projects in the NIS in 1994 beyond those funded by either the FREEDOM Support Act or the Cooperative Threat Reduction program. The funding for these projects came from a variety of sources, most commonly from the base operating budgets of the respective agencies involved--such as elements of the NRC nuclear reactor safety program--or through other specific Congressional appropriations--such as the Emerging Democracies program at USDA. In addition, some projects were funded out of the Economic Support Fund and the Non-Proliferation Fund. In 1994, however, some of the assistance projects that in previous years were funded out of base operating budgets--such as the USIA exchange programs--were funded out of the FREEDOM Support Act.

The following assistance program descriptions are from those U.S. Government agencies that funded assistance programs in the NIS outside of the FREEDOM Support Act or the Cooperative Threat Reduction program. A few other programs--such as NASA's scientific cooperation efforts and the Department of Defense's military-to-military training efforts--are not included because they represent a significantly different type of "assistance" than the other programs mentioned in this report. Some of the other agencies providing assistance maintain their own reporting mechanisms to Congress on their assistance efforts in the NIS and we do not have descriptions for their programs. The U.S. Government agencies that fall into this category are:

Department of Energy

Department of Health and Human Services

Nuclear Regulatory Commission

National Science Foundation

Department of Justice

Environmental Protection Agency

USAID NIS FARMER-TO-FARMER PROGRAM

In 1991, a three-year, \$30 million Special Initiative of the Farmer-To-Farmer (FTF) program was authorized as one of the first USG assistance programs for the NIS countries and funded from PL 480 Title II resources. This people-to-people program is an effective and flexible mechanism to transfer the vast technology, knowledge and skills of U.S. farmers and agribusinesses to farmers and farm groups in the NIS. FTF is administered by USAID. Emphasis in this Special Initiative is on assisting post-harvest agribusiness with the goal of facilitating an orderly transition to a free-market economy. The overall objectives of the NIS-FTF program are to increase food availability to the consumers in the near term and to take steps to ensure against future food shortages and distribution problems. The transfer of U.S. agricultural knowledge and expertise is done on a people-to-people basis and includes activities in a broad range of agricultural subsectors.

Six organizations were selected to implement the NIS-FTF program. They will field an estimated 2000 volunteers to sites in all 12 of the New Independent States by September 30, 1995, with the greatest concentration in the Russian Federation, Ukraine and Kazakhstan. All six organizations have established one or more in-country offices for their Farmer-to-Farmer activities. Nearly 1400 volunteer assignments were completed through December, 1994. FTF volunteers have a broad range of technical skills and assignments in the NIS include assistance to individual farm enterprises to assist with on-farm problems (25 percent), cooperatives or other farmer associations (21 percent), agribusinesses (26 percent), rural credit institutions (nine

percent), governments and policy formulation (4.5 percent), agricultural educational institutions (10 percent) and agricultural youth groups (one percent). Increasingly, NIS-FTF assignments have been focused on organizational, managerial and financial aspects of cooperatives, agribusinesses and rural financial institutions. Farmer-To-Farmer volunteers normally will spend about a month in country. In Russia and Ukraine the program has included partnerships which link American state farm bureaus with regional branches of the Russian Private Farmers Association (AKKOR) and the Ukrainian Farmers Association (UFA).

Obligations for the NIS-FTF program to December 31, 1994, total \$31,538,746. Estimated expenditures as of December 31, 1994, total \$22,154,068. All six implementors are generally on schedule, and they expect to expend all funds obligated and surpass original volunteer target numbers by the current completion date of September 30, 1995.

FTF volunteers have come from 49 of the 50 states. They average 25 years of relevant experience. More than 1400 volunteer assignments have been completed, totaling 125 person-years of technical assistance.

The FTF program has significantly affected the lives of 82,500 individuals in the NIS, of which 36 percent are women. FTF has trained 18,942 individuals and the bulk of the training has been in rural banking and management. The FTF implementors have leveraged other funds to sponsor training missions to the U.S. for 403 NIS citizens, including 39 national-level policy-makers.

FTF volunteers have helped start private farmer cooperatives, open supermarkets, reduce storage losses, improve food processing systems, start farmer's radio stations, develop commodity exchanges, create private banking systems, establish US-NIS farm bureau partnerships, establish land appraisal and mortgaging systems, and advise on land reform and cooperative legislation.

FTF volunteers have concentrated on the skills essential to running farms as businesses and have had a significant impact on agricultural marketing in the NIS. They have worked with 180 processing plants and introduced 220 improvements in food and fiber processing in local areas. They helped introduce 721 new products, services and crop varieties throughout the region. In 85 new private banks, volunteers have helped institute Western banking practices and create agricultural lending systems.

In the environmental area, FTF volunteers have had a significant impact in the areas of radionuclide contamination reduction, livestock waste management, leather processing by-product elimination, wildlife management, soil management, water filtration and agroforestry.

Over five million people in the U.S. have learned about NIS agricultural developments through press articles, radio and TV programs, and speeches by volunteers and staff. Some 55 books or manuals and 1,100 other technical documents have been translated, published, and disseminated for use in the

NIS.

The average cost per volunteer assignment is \$13,500, which includes all FTF program expenditures. In addition, NIS host organization in-kind have been approximately \$1,500 per volunteer, and U.S. in-kind contributions have valued at about \$4,000 per volunteer. Altogether, U.S. Government funding has leveraged additional private-sector funding of 40 percent, or over \$8 million.

USDA TECHNICAL ASSISTANCE PROGRAMS IN THE NIS

USDA funds a number of technical assistance programs in the NIS through the Emerging Democracies program. USDA receives direct appropriations from Congress to fund these programs.

Wholesale Market Development/Market Information System:

This \$1.2 million program is establishing an agricultural market news information system in Russia. It currently is operating in Kaluga oblast, Belgorod oblast, and Mari-El autonomous republic. It will be expanded nationwide under a World Bank loan.

Market Information Project: In early December 1994 a 5-member Agricultural Marketing Service team conducted two-week seminars in Kiev and L'viv. The seminars addressed the role of government in the agricultural sector to enhance market mechanisms and the concept of marketing agricultural production through private, impersonal routes. This is a \$50,000 project. The seminars also included information on the purposes and objectives of an open market system.

Russian Agricultural Commodity Exchange: This \$850,000 program is developing a pool of skilled, market-oriented merchandisers who will operate in the cash markets, commodity exchanges, and country buying stations.

An advisor to the private grain trade was placed in Moscow in April 1994 to provide in-country assistance to the project and be a liaison between Russian and American entities.

In May the first portion of the program involving training seminars was held in Moscow. In October the second Russian workshop was conducted.

In August a select group of Russians traveled to the United States to participate in a short course designed by North Dakota State University.

Russian Far East Food and Beverage Processors and Exporters Trade Mission: This \$25,000 project is a follow-up to the July 1993 Russian Far East Trade and Investment Mission. The mission is limited in scope and will concentrate solely on the meat sector. The trade mission, originally scheduled for fall 1994, has been rescheduled for spring 1995.

Giant/TPC Grand Opening in Vladivostok: This recently approved \$25,000 project will provide marketing and information dissemination support for the initial phase of the grand opening of the first Giant/TPC store in

Vladivostok. The grand opening is scheduled for February 1995.

Agricultural Policy Advisors (Kazakhstan, Ukraine): These advisors assist the ministries with the development of their countries' agricultural and reform policies. This is a \$370,000 project.

An agricultural advisor was placed in the Kazakhstan Ministry of Agriculture in October 1992. He will finish his tenure in February 1995.

An agricultural advisor was placed in the Ukraine Ministry of Agriculture in April 1994.

Warehouse Feasibility Study: This \$100,000 project will provide for a feasibility study for the placement of a food warehouse in the Baltics. This warehouse would provide storage space for the various American food exporters doing business or interested in doing business in the Former Soviet Union.

Handbooks on Marketing, Storage and Handling: This \$85,000 project was initiated with VOCA/Moscow to publish and distribute three USDA references in Russian. Agricultural Handbook 66, "The Commercial Storage of Fruits, Vegetables and Florist and Nursery Stocks" is being distributed by VOCA.

Agricultural Handbook 668, "Tropical Products Transport Handbook" has been translated and edited and is now being published.

The third reference, "Agricultural Marketing and Transportation in the United States" is being updated and should be available soon.

U.S.-Russian Joint Commission for Agribusiness and Rural Development: This program funds small agribusiness programs using the moneys generated from the monetization of donated commodities. Loans of \$10,000-\$500,000 are granted on a competitive basis. Payback of the loan is normally 2-3 years with the funds designated for a rural development or humanitarian project in the community.

The U.S.-Russian Joint Commission was created in March, and the first loans were granted in fall 1994.

St. Petersburg Farm Privatization Project: In an effort to demonstrate various aspects of farm management and marketing practices to a group of newly privatized Russian farmers, USDA has aided the Russians in establishing a farm privatization project near St. Petersburg. This is a \$2.3 million project.

Twenty-one Russian families were selected to participate in the program funded over three years at a total of \$2.3 million.

U.S. advisors include a project director and two farming couples.

Agribusiness Linkage Program: This one-year \$1.2 million pilot program promoted agribusiness partnerships between small and medium-sized U.S. food processing companies and their counterparts in the Newly Independent States (NIS).

To date, five American businessmen have left for Russia to meet with potential joint venture partners.

The Agribusiness Linkage Program in Russia has not produced a significant number of viable linkages to merit a continuation of the program in its present state.

TATFOOD/Agricultural and Agribusiness Project: This \$600,000 project was developed with Texas A&M University and Tatneft (Tatarstan Regional Oil and Agricultural Amalgamation) to develop agribusiness and marketing linkages and provide agribusiness management training and education in the region. The project was initiated in 1992, with Emerging Democracies Program participation since February 1993.

A team from the Emerging Democracies Office and Extension Service made an on site visit to the model farm in Tatarstan, Russia. As a result of this evaluation, Texas A&M University and USDA jointly decided to close this project at the end of FY 94.

St. Petersburg Port Study: This \$130,000 study prepared a detailed technical appraisal of bulk and container cargo handling problems at the port of St. Petersburg and investigated Kaliningrad and Klaipeda as alternative ports. The study concluded that although port capacity was adequate, severe institutional and operational problems greatly reduce actual capabilities to handle cargo. Recommendations include methods for improved data gathering and distribution regarding port conditions, an assessment of the feasibility of constructing a small grain storage facility at the Port of St. Petersburg, and options for using alternative ports during periods of congestion at St. Petersburg.

Market Standards and Training (Kazakhstan): This \$150,000 program assists agribusiness, government, and academic officials to design and implement an effective market news and information system that will incorporate commodity grade standards with price levels. In June 1994 a training session was held for market reporters and program coordinators. The training focused on the duties of a market reporter. A reporter's handbook was developed. Collection of market information occurred during the summer and fall. The team will assist in establishing uniformity and consistency of reporting. This project will implement the AMS groundwork on effective market information standards for livestock, meat and grain. The introduction of marketing concepts and training of Kazakhstan specialists will be included.

Trade Mission (Kazakhstan): EDO fielded a government/private sector mission to Kazakhstan June 14-28, 1994, to assess viable commercial investment opportunities for agribusiness development and market promotion. This is

a \$100,000 project.

DEPARTMENT OF COMMERCE - Bureau of Export Administration
Assistance Programs in the NIS

Defense Conversion Initiatives

The Bureau of Export Administration (BXA) has helped promote U.S. industrial partnerships with converting defense enterprises in the NIS. In 1994, BXA:

Published special editions of its Defense Business Directories in support of the Cooperative Threat Reduction program for Kazakhstan, Russia and Ukraine. Initial funding for the directories came out of BXA funds, but the CTR program later contributed to the project.

Provided the input to Commerce's BISNIS for two special editions of BISNIS's Search for Partners bulletin devoted exclusively to NIS defense conversion.

Hosted industry roundtables to alert U.S. companies to opportunities in NIS defense conversion.

Counseled over 1,000 U.S. industry representatives on the business environment and business opportunities with NIS defense firms.

BXA has done this in its role as U.S. vice chair to the Secretary of Defense on the bilateral defense committees with Belarus, Kazakhstan, Russia and Ukraine. This work was also related to BXA's role as chair of the Defense Conversion Subcommittee of the U.S.-Russia Business Development Committee (BDC), chaired by the Secretary of Commerce, as well as of the BDCs with Ukraine, Kazakhstan and other NIS countries.

ARMS CONTROL AND DISARMAMENT AGENCY

Russian-American Entrepreneurial Workshops on Defense Technology Conversion

The stated mission of the Arms Control and Disarmament Agency (ACDA) is "to strengthen the national security of the United States by formulating, advocating, negotiating, implementing and verifying effective arms control, nonproliferation and disarmament policies, strategies and agreements." One facet of this that has received little overall attention has been the concept of arms control by conversion. The President's National Security Strategy of Engagement and Enlargement (July 1994) links U.S. national security with Russian economic reform and a transition to a free market economy.

Believing that the conversion of the Russian defense technology to commercial endeavors will provide a critical base for economic reform, ACDA initiated a series of entrepreneurial workshops on defense technology conversion in 1992 with Russia's Ministry of Atomic Energy (MINATOM). Demonstrating that the technologies inherent in constructing weapons of mass destruction can be applied to profitable

commercial products, these workshops, sponsored jointly by ACDA, DOE and MINATOM provide basic tutorials in the fundamentals of business, including market research, venture capital, business law and financial management. Case studies are used as the basis for developing business plans based on potentially marketable MINATOM technologies.

In May 1994, the third of these workshops was conducted at Lawrence Livermore Laboratories. Previous workshops were in Moscow (1993) and Boston (1992). 25 Russian participants from MINATOM, the Russian weapons laboratories at Arzamas-16 and Chelyabinsk-70, the Institute of Automation, the Institute of Impulse Technology participated. It should be noted that these organizations were primarily responsible for the design of the Soviet nuclear arsenal. Technology concepts and commercial spin-offs addressed in the course included electro-chemical power generators (fuel cells), x-ray diagnostic equipment, rural electrification equipment, and materials processing. The three workshops have produced a number of small start-up endeavors in Russia and several cooperative agreements with U.S. companies and have been praised by the GAO for their effectiveness.

1994 costs for the workshop were \$200,000, split between ACDA special projects funding and DOE sources. While the fourth (and last) Russian Workshop is being planned for May 1995 in Arzamas-16, similar workshops are being considered for Kazakhstan and other republics.

X. ASSESSMENT OF PROGRESS ON MEETING STANDARDS OF SECTION OF THE FREEDOM SUPPORT ACT

The following section provides a detailed assessment of the progress each NIS state has made on meeting the standards of Section 498A of the FREEDOM Support Act.

ARMENIA

Criteria for U.S. Assistance
Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

The Government of Armenia's proclaimed aim is to build a Western-style parliamentary democracy as the basis of its form of government. The inability of Parliament to adopt a new constitution has limited Armenia's progress toward substantive political reform. The multiparty system appears to be well-accepted, and a number of parties are represented in Parliament. One of the opposition parties, the Dashnaks, was temporarily suspended in late 1994 because of alleged involvement with drug-trafficking, political assassination,

and terrorism. The Government maintains monopoly control over television and radio broadcasting, but a myriad of newspapers and journals covering the spectrum of public opinion is available to the general public. Censorship exists but does not appear to be onerous, although three opposition journalists were recently denied access to the Foreign Ministry for "falsification and ill-intended fabrications" directed at senior Foreign Ministry officials.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The conflict over Nagorno-Karabakh, the embargoes by Turkey and Azerbaijan and the resultant dramatic reduction in imports of fuel and raw materials, the destruction caused by the 1988 earthquake, as well as the collapse of traditional trade patterns which all the NIS have experienced, combined to cause in Armenia one of the sharpest declines in economic activity in the NIS. However, as the conflict in Nagorno-Karabakh began to show signs of approaching a negotiated settlement, the Government of Armenia in 1994 began reforms which paid off in dramatically lower inflation. Armenia also showed signs of small but positive economic growth in the first part of 1994, the first NIS to do so.

In December of 1994, the IMF approved the first tranche of a Systemic Transformation Facility to support Armenia's macroeconomic reform program. As part of the program, the Government has pledged to strengthen its macroeconomic management (including increasing revenue collection), move towards full price liberalization, eliminate most exchange and trade restrictions, and accelerate the privatization process.

Privatization in agriculture has gone furthest. About 87 percent of farm land has been distributed and since February 1994 the sale of land has been permitted. Privatization in other areas of the economy is moving more slowly. Distribution of privatization vouchers began in October 1994, the government accelerated the pace of small-scale privatization, and began to convert larger enterprises to joint stock companies as a first step towards full privatization. Nearly 50 percent of the housing stock has been privatized. Most prices were liberalized early in Armenia's independence, and bread and rent prices should be freed in 1995.

A liberal foreign investment law was approved in June 1994. A national currency, the dram, was introduced in late November 1993. Armenia has concluded a trade agreement (which enables it to receive MFN status and incorporates intellectual property rights provisions), a bilateral investment treaty, and an OPIC agreement with the United States. Armenia has expressed interest in negotiating a tax treaty, and is receiving U.S. technical assistance in

revising its tax structure. Armenia has joined the International Monetary Fund and the International Bank for Reconstruction and Development.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

While the observance of human rights in Armenia is uneven, some progress has been made. Public demonstrations without government interference are commonplace in Armenia, although no specific laws presently exist to guarantee the right of peaceful assembly and association. Freedom of religion, while also generally observed, is not specifically protected under existing law. Armenia's ethnic Azeri population, forced out in 1988-89, remain refugees, mostly in Azerbaijan. Armenia's record on discrimination towards the few remaining national minorities is good. The Government does not restrict internal or international travel.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

While some progress has been made toward the observance of international law and obligations and CSCE commitments in the area of human rights, armed conflict in Nagorno-Karabakh continues, although a cease-fire is in place. President Ter-Petrosyan, who rose to prominence and power on the issue of Nagorno-Karabakh's status has refused to recognize the self-proclaimed independence of the "Nagorno-Karabakh Republic" He has, however, acknowledged allowing Armenian "volunteers" to fight for the Nagorno-Karabakh army. Some human rights organizations have accused Armenia of sending regular troops to fight in Nagorno-Karabakh. There are also concerns over the treatment of Azerbaijani POW's after the Armenian government earlier this year returned several bodies to Baku which, according to international experts, had apparently been shot at close range in a possible execution, rather than having been shot while attempting to escape, as the Armenian government claimed.

The Armenian government began allowing ICRC access to POW camps earlier this year; in October, the parties to the conflict exchanged prisoners under CSCE auspices. The CSCE and the U.S. Government continue to encourage further exchanges. Armenia continues to observe the cease-fire which has been in effect since May, 1994 and meets regularly, often within the CSCE Minsk Group, in an effort to resolve the Nagorno-Karabakh conflict.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The CSCE created the Minsk Group in Spring 1992 as the forum for a peaceful, negotiated resolution to the conflict over Nagorno-Karabakh. Negotiations have focused on

creating the conditions for deploying a multinational CSCE peacekeeping force to the region as part of a broader political settlement. Current negotiations center on the status of disputed territories and the modalities for the CSCE mission to the region.

Section 498A(a)(6): "implement responsible security policies, including--

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
- (D) restraining conventional weapons transfers."

The CFE Treaty was ratified by the Armenian Parliament in July 1992. Armenian officials have consistently expressed determination to comply with its provisions. While there have been concerns about Armenia's capability to fulfill its obligations under the CFE Treaty, Armenia did provide the data on its conventional forces required by the Treaty by the December 15, 1993, deadline and has accepted on-site inspections of forces on its territory. Armenia is developing the expertise needed for implementation of complex arms control agreements. There are indications that Armenia is trying to establish mechanisms to ensure fulfillment of arms control obligations. Armenia acceded to the NPT as a non-nuclear weapon state on July 15, 1993. The U.S. and other Western governments have discussed efforts to establish effective export control systems with Armenia. On March 19, 1993, Armenia signed the multilateral Chemical Weapons Convention, which calls for the eventual elimination of chemical weapons.

We have periodically received reports of weapons-of-mass-destruction proliferation-related transfers involving Armenia which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports has resulted in a sanctions determination during the reporting period.

Armenia is not a significant exporter of conventional weapons, but it has provided substantial support, including materiel, to separatists in the Nagorno-Karabakh region of Azerbaijan.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

The Government of Armenia has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a Ministry of Environment and the introduction, at least on an experimental basis, of a pollution fee system by which taxes are levied on air and water emissions and solid waste disposal, with the resulting revenues channeled to

environmental protection activities. National environmental NGO's are gaining access to the policy-making process on environmental issues. Armenia has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information-sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Armenia does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Armenia signed both the October and December 1991 agreements. The December 1991 agreement provided that Armenia's share of the FSU debt would be 0.86 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In November 1992, Armenia signed a protocol with Russia under which Russia will take on management responsibility for Armenia's share of the FSU's debt.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 25, 1994. Pursuant both to the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Commission has not initiated direct negotiations with Armenia.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Armenia is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Grounds of Ineligibility

Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Armenia has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While there have been some shortcomings in human rights observance (as discussed above), we do not believe that the Government of Armenia is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Armenia "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. While there have been flaws in its record (as discussed above), we do not believe that the Government of Armenia has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Armenia "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

We periodically receive reports of weapons-of-mass-

destruction proliferation-related transfers which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports has resulted in a sanctions determination during the reporting period.

Section 498A(b)(4): Is the Government of Armenia "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Armenia is not prohibited from receiving assistance under these statutes.

AZERBAIJAN

Criteria for U.S. Assistance

Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Azerbaijan is on the slow path toward democracy. The government continues its harassment of the opposition, including detention and suppression of demonstrations. An independent media exists, but so does censorship and periodic government interference in the publication of newspapers. The leadership maintains that it is committed to democratic principles. There are a number of political parties represented in the Parliament, and Parliamentary elections are set for summer 1995.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The Government of Azerbaijan has been slow to embrace market-oriented reform, although it has taken some measures to open the economy to foreign investment. The conflict in Nagorno-Karabakh has also had a negative impact on the economy and diverted the government's attention away from economic reform. As the conflict shows signs of moving towards a resolution, the government has begun to turn its attention towards the economy.

The parliament passed a privatization law in August 1994, but the process has languished since no implementing legislation has yet been approved. Private business has

begun to appear, primarily in the retail sector in the main cities and towns. In addition, many state enterprises are beginning to produce and even market their products independently of central government control.

Recently, the government has stepped up its reform efforts, partly with the intention of requesting a Systemic Transformation Facility loan from the IMF. In April 1994, the President issued a decree designed to liberalize the currency market, encourage exports and encourage investment. Further work needs to be done to eliminate surrender requirements and to unify its exchange rate. The government was unable to stick to its ambitious budget plan and has resorted to inflationary issuances of currency. Prices on energy and bread have been increased to reduce the subsidy, but price controls remain.

Azerbaijan has joined the IMF, EBRD and IBRD, and concluded an OPIC agreement with the United States in September 1992. In April 1993, Azerbaijan signed a bilateral trade agreement with the U.S. that would extend reciprocal MFN and contains IPR (Intellectual Property Rights) provisions. The trade agreement has not yet entered into force. Azerbaijan has introduced its own currency, the manat.

Section 498A(a)(3): "respect for internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The conflict over Nagorno-Karabakh continued to be the most significant factor in the human rights situation in Azerbaijan. The expansion of ethnic Armenian separatists into Azeri-populated regions in Azerbaijan in 1993 created hundreds of thousands of additional Azerbaijani displaced persons. The government took steps to suppress political opposition and censor the press.

The situation of the remaining ethnic Armenians in Azerbaijan remains difficult despite government declarations guaranteeing their safety. While believers of other faiths practice their religions without restrictions or sanctions, Armenian churches remain closed. Some Armenians also have had difficulties trying to emigrate, although other persons belonging to ethnic minority groups have not experienced problems. For those Armenians who remain in Baku, the greatest fear is of being taken hostage in connection with the conflict in Nagorno-Karabakh.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Azerbaijan has reiterated its commitment to the observance of international legal obligations and CSCE commitments in the area of human rights. At the same time, the conflict in Nagorno-Karabakh continues and both sides have committed violations of international humanitarian laws. In addition, Azerbaijan

has actively disrupted gas transshipment to and rail and communications links with Armenia in response to Armenia's support for Nagorno-Karabakh separatists. The parties to the conflict continue to observe a cease-fire which has been in effect since May, 1994, and they agreed in September to extend the cease-fire indefinitely. There has been some direct dialogue between the Armenian and Azerbaijani governments, and both are participants in the CSCE Minsk Group effort to resolve the Nagorno-Karabakh conflict.

There remain concerns over the treatment of those captured in connection with the Nagorno-Karabakh conflict. However, Azerbaijan has allowed ICRC access to prisoners, and in October the conflicting parties exchanged prisoners under CSCE auspices. The CSCE and U.S. Government continue to encourage further exchanges.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The CSCE created the Minsk Group in Spring 1992 as the forum for a peaceful, negotiated resolution to the conflict over Nagorno-Karabakh. Negotiations have focused on creating the conditions for deploying a multinational CSCE peacekeeping force to the region as part of a broader political settlement. Current negotiations center on the status of disputed territories and the modalities for the CSCE mission to the region. Azerbaijan has repeatedly stated its commitment to the CSCE peace process.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;

(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;

(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and

(D) restraining conventional weapons transfers."

Azerbaijan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. The CFE Treaty was ratified by the Azerbaijani government in July 1992. While Azerbaijan has not provided all notifications required by the Treaty on its conventional forces, it did provide data on its conventional forces by the December 1993 Treaty deadline. Azerbaijan has accepted CFE on-site inspections of forces on its territory. Azerbaijan is only beginning to develop the expertise needed for implementation of complex arms control agreements, but is taking steps to establish the necessary infrastructure. Azerbaijan also acceded to the NPT as a non-nuclear weapon state on September 22, 1992.

We do not believe that Azerbaijan has engaged in the proliferation of nuclear, chemical, or biological weapons, their delivery systems, or related technology. Azerbaijan is a signatory to the Chemical Weapons Convention, which calls for the eventual elimination of chemical weapons.

Azerbaijan is not a significant exporter of conventional weapons.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

While information on specific "constructive actions" undertaken by the Azerbaijani Government is limited, we have no information or reason to believe that Azerbaijan has contributed to transborder pollution or environmental abuse. Azerbaijan is currently engaged in talks with Russia, Turkmenistan, Kazakhstan and Iran on environmental protection of the Caspian Sea. These marine environmental protection talks will include discussion of development of the mineral resources of the Caspian seabed and use of the sturgeon population in a way that protects the Caspian ecosystem.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Azerbaijan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Azerbaijan did not sign either the October or December 1991 agreements at that time. The December 1991 agreement provided that Azerbaijan's share of the FSU debt would be 1.64 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In September 1993, Azerbaijan signed a "zero option" agreement with Russia under which Russia will pay Azerbaijan's share of the debt, as defined in the December 1991 agreement, in return for its share of the assets.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the

former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 25, 1994. Pursuant both to the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Commission has not initiated direct negotiations with Azerbaijan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Azerbaijan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Grounds of Ineligibility
Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Azerbaijan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While there have been serious shortcomings in human rights observance (as discussed above), we do not believe that the Government of Azerbaijan is engaged in a pattern of gross violations.

Section 498A(b)(2): Has the President determined that the Government of Azerbaijan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Azerbaijan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Azerbaijan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Azerbaijan has made such transfers.

Section 498A(b)(4): Is the Government of Azerbaijan "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Azerbaijan is not prohibited from receiving assistance under these statutes.

BELARUS

Criteria for U.S. Assistance

Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Belarus made important strides in political reform in 1994. The Supreme Soviet passed in December 1994 a law on parliamentary elections, detailing the method of election. Parliamentary elections have been scheduled for May 14, 1995. The Supreme Soviet adopted a new constitution in March 1994, which provided, inter alia, for the creation of a Presidency and a constitutional court. Belarus' first-ever president, Aleksandr Lukashenko, was elected in July in an election that was generally considered free and fair. Lukashenko, then a member of parliament, defeated a range of candidates in that election, including the incumbent prime minister. Although there have been instances of press censorship, the government has not generally suppressed political activity and a political opposition functions in the press and on the floor of the Supreme Soviet. On the whole, there has been progress since independence in the areas of freedom of travel, assembly, speech and religion.

Section 498A(a)(2): make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform

(including protection of intellectual property and respect for contracts).

Shortly after his election in the summer of 1994, President Lukashenko announced that Belarus had no alternative to market-oriented reform. Over the next several months his government's performance was mixed, with some freeing of prices on basic commodities, rent and services but no effort made to increase privatization and limit credit emissions. Negotiations are ongoing with the IMF on the second tranche of a Systemic Transformation Facility and a Stand-by program. Lukashenko announced further price liberalization, hard budget restraints, and increased privatization in order to qualify for this new financing. Some sort of "social safety net" provisions are likely to be included with these reforms to protect the most vulnerable members of society.

The Belarus government wants to attract foreign investment and has introduced reforms to improve the investment climate, but there are few concrete implementing policies. A law on copyright protection is in the draft stage. Belarus is a member of the IMF, IBRD and EBRD; we have encouraged the Belarusian government to work actively with these institutions on a comprehensive economic reform program. An OPIC agreement entered into force in 1992. A trade agreement between Belarus and the United States which extends reciprocal MFN status and contains IPR (Intellectual Property Right) provisions entered into force in February 1993. A bilateral investment treaty has been negotiated and was ratified by the Belarusian Parliament in October, but still awaits U.S. ratification before it can enter into force.

Section 498A(a)(3): "respect for internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Belarus declared its commitment to observe internationally recognized human rights, including the protection of members of minorities, when it joined the CSCE in January 1992. These commitments were further adopted as part of the new constitution introduced in 1994. Respect for human rights has progressed in important areas since Belarus' independence in 1991. Ethnic tensions have not been a problem in Belarus and persons of all faiths may now worship without fear of persecution. Emigration procedures have been relaxed considerably. However, freedom of the press, although provided for in existing legislation, has yet to be fully observed in practice. The government maintains a measure of control over the press through its financial support, and has employed slander laws in the past to minimize criticism of its policies.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

Belarus has demonstrated its respect for international law and obligations through its active participation in the CSCE and has shown no tendency to use or threaten to use force to settle disputes.

Section 498A(a)(5): -cooperate in seeking peaceful resolution

Belarus is not involved in ethnic or regional conflicts and has supported the CIS and CSCE as conflict-resolving mechanisms. Belarus is only a conditional member of the CIS Collective Security agreement; no foreign troops may be deployed to Belarus, nor may Belarusian troops be sent abroad, without the explicit approval of the Supreme Soviet.

Section 498A(a)(6): implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;

(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;

(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and

(D) restraining conventional weapons transfers."

Belarus has formally declared its acceptance of all of the relevant arms control obligations of the former Soviet Union. It has ratified the START and CFE treaties. Belarus fulfilled all CFE data, notification and reduction requirements for the second CFE reduction year ending in November 1994. Belarus acceded to the NPT as a non-nuclear weapon state (which it had committed to do in the May 1992 Lisbon Protocol to START I) in July 1993 and deposited its instrument of accession with the three NPT co-depository states. Belarus will conclude a full-scope safeguards agreement with the IAEA. Belarus participates in discussions on implementing the INF, ABM and START treaties as a successor state to the Soviet Union. All former Soviet tactical nuclear weapons were removed from Belarus by May 1992, two months ahead of the announced deadline. Also in May 1992, Belarus signed a letter accompanying the Lisbon Protocol to START promising to eliminate all strategic offensive arms located in Belarus. Belarus and Russia have set a 1996 target date for removing all nuclear weapons from Belarusian territory, well ahead of the seven-year START reduction period.

The government's official policy is to reduce its armed forces by more than half and to be a neutral, non-nuclear-weapon state. Belarus was the first of the NIS to sign agreements with the U.S. under the Nunn-Lugar program, providing assistance in the areas of export control, defense conversion, environmental restoration, and the establishment of a continuous communications link with the U.S. NRC. We do not believe that Belarus has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Belarus is an original signatory to the multilateral Chemical Weapons Convention. Belarus has engaged in limited commercial conventional

weapons transactions. It seeks to convert certain defense facilities to civilian production but lacks the funds to do so quickly.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Belarus has taken positive steps to address international environmental issues by establishing ministries of energy, forestry and water resources, and land reclamation. It has also established state committees on consequences of the Chernobyl accident, ecology, and supervision of safety procedures in industry and the nuclear power industry. Belarus suffered most of the effects of Chernobyl and has actively sought U.S. and other outside assistance in cleaning up areas devastated by radiation.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Belarus does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Belarus signed both the October and December 1991 agreements. The December 1991 agreement provided that Belarus' share of the FSU debt would be 4.13 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In July 1992, Belarus signed a "zero option" agreement with Russia under which Russia will pay Belarus' share of the debt in return for its share of the assets.

In implementing this arrangement, in April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. In June 1994, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears

and 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on October 25, 1994. Pursuant to the June agreement, Russia is now seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs, which was established in January 1992. The Joint Commission sponsored several trips to Belarus in 1994 and has considered its work with the Government of Belarus as a model of cooperation.

Section 498A(a)(11): 'terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance.

The Government of Belarus is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Ground's of Ineligibility
Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Belarus has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. We do not believe that the Government of Belarus is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Belarus 'has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Belarus has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Belarus knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would

contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determined that the material, equipment, or technology was to be used by such country in the manufacture of such weapon?"

No. We do not believe that the Government of Belarus has made such transfers.

Section 498A(b)(4): Is the Government of Belarus "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Belarus is not prohibited from receiving assistance under these statutes.

GEORGIA

Criteria for U.S. Assistance

Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Elections were held on October 11, 1992, in 75 of 84 election districts. Elections were not held in the remaining districts because of the lack of government control over these areas. The elections overall appear to have been a valid exercise of free choice outside of the non-voting areas in Abkhazia, Mengrelia and South Ossetia. The new Parliament, which convened on November 4, 1993, has formed a parliamentary committee to re-write the Georgian constitution. The committee is expected to report early in 1995. The next elections are scheduled for Fall 1995.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The Georgian economy has been crippled by war, earthquake and trade disruptions in addition to the legacy of a centralized, command economy. Between 1990 and the end of 1993, the economy declined by an estimated 70 percent. This decline continued in 1994. The Georgian coupon became the sole legal tender in July 1993. The monetary and fiscal policies of the Georgian government contributed to the

dramatic weakening of the coupon in Fall 1993, and its virtual abandonment as a currency and substitution by the Russian ruble. In the last few months, the Government of Georgia has shown signs of tightening fiscal and monetary policy. Georgia has agreed to a comprehensive reform program with the International Monetary Fund, which approved an initial extension of funds under the Systemic Transformation Facility in December 1994.

The Georgian parliament has passed several laws laying the groundwork for a market economy. These include a foreign investment law that allows for 100 percent foreign ownership, laws on the foundations of ownership and leasehold relations, and a privatization law. Most prices have been freed, and remaining subsidies on bread and transportation are to be eliminated in 1995. Almost all housing and a large proportion of agricultural land have been privatized, but work remains on developing and completion of a legal framework for property rights. While small-scale privatization is proceeding quickly, medium- and large-scale privatization has only just begun. As part of its stabilization program, Georgia has pledged to restructure and drastically reduce the size of its government sector.

Georgia is a member of the IMF and World Bank. The bilateral trade agreement with the U.S., which provides mutual MFN treatment and contains intellectual property rights provisions, came into force in August 1993. An OPIC agreement has been in force since 1992.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Some progress has been made in the protection of human rights. Freedom of religion, as well as freedom for foreign and internal travel, including emigration, are unrestricted. Nevertheless, the human rights situation in Georgia continues to be of serious concern. The armed conflicts in South Ossetia and particularly in Abkhazia have prompted allegations of human rights violations by all sides. In addition, freedom of speech, the press, and assembly are restricted by the government to varying degrees, although less so than in the past.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

While some progress has been made toward the observance of international legal obligations and CSCE commitments in the area of human rights, the issue of the status of Abkhazia remains unresolved. The U.S. continues to urge all parties to pursue a peaceful resolution of the conflict in a manner that safeguards both the territorial integrity of Georgia and the rights of individuals belonging to ethnic minorities.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Chairman Shevardnadze has consistently stressed the need for a negotiated settlement to the conflict in Abkhazia, and has pledged to continue this approach despite Abkhazia's unilateral declaration of independence in November of 1994. Since 1992, a CSCE mission has been working in Georgia to facilitate a political settlement of the South Ossetia dispute. Its mandate was recently expanded to include developing democratic institutions and protecting respect for human rights throughout Georgia.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;

(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;

(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and

(D) restraining conventional weapons transfers."

Under the leadership of former Soviet Foreign Minister Eduard Shevardnadze, Georgia has consistently made clear its commitment to achieving full implementation of the CFE Treaty, of which Shevardnadze was a major architect. Shortcomings in the Georgians' implementation of CFE provisions have been procedural not substantive. Georgia's failure to provide its December 1993 CFE data appears to be a result of limited resources and inexperience. Georgia has pledged to provide the CFE data shortly. Georgia has accepted CFE inspections of forces on its territory.

The Georgian government is negotiating with Russia over the disposition of weapons and military facilities on Georgian territory. The ill-equipped Georgian military has not built up its stock of arms and equipment and has been hard-pressed to maintain its forces in Abkhazia and South Ossetia.

We do not believe that Georgia has engaged in significant transfers of conventional weapons, or in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Georgia acceded to the Nuclear Non-Proliferation Treaty as a non-nuclear weapon state on March 7, 1994. The U.S. and other Western governments have discussed efforts to establish effective export control systems with Georgia. Georgia has indicated its intention, as a successor to the former Soviet Union, to become a party to the ABM Treaty. Georgia is an original signatory to the multilateral Chemical Weapons Convention, which calls for the eventual elimination of chemical weapons.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

The Government of Georgia has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a Ministry of Environment. National environmental NGO's are gaining access to the policy-making process on environmental issues, and a Green Party is active. Georgia has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Georgia does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the assets and foreign debt of the former Soviet Union. Georgia signed both the October and December 1991 agreements. The December 1991 agreement provided that Georgia's share of the FSU debt would be 1.62 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. Georgia has signed an agreement with Russia transferring Georgia's share of the FSU debt to Russia in exchange for its share of FSU assets (the so called "zero option").

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 25, 1994. Pursuant both to the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable to those

agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Commission has not initiated direct negotiations with Georgia.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Georgia is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Grounds of Ineligibility
Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Georgia has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While there have been serious shortcomings in human rights observance (as discussed above), we do not believe that the Government of Georgia is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Georgia "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. While there have been flaws in its record (as discussed above), we do not believe that the Government of Georgia has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Georgia "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was

to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Georgia has made such transfers.

Section 498A(b)(4): Is the Government of Georgia "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Georgia is not prohibited from receiving assistance under these statutes.

KAZAKHSTAN

Criteria for U.S. Assistance

Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

In December 1991, shortly before the United States formally recognized Kazakhstan as an independent state, Nursultan Nazarbayev won Kazakhstan's first presidential election in a single-candidate contest. Presidential elections will next be held in 1996. The Supreme Soviet, which remains the legislative branch, adopted in January 1993 a new constitution that vests most authority in the President, but also includes substantial protections for individuals, including members of non-Kazakh ethnic groups. Several opposition political parties are registered and politically active, including in the Supreme Soviet. New political groups have appeared but some have not been allowed to register or operate freely. Parliamentary elections were held in March 1994. While commending the government for holding elections in which opposition groups had campaigned, the CSCE Parliamentary Assembly observer delegation concluded that the election had not met international standards and could not be considered free and fair. Nonetheless, while generally supportive of President Nazarbayev's positions, the new parliament has demonstrated some independence in key votes.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

Kazakhstan continues to make good progress in restructuring its economic system. The government has virtually completed price liberalization, prepared legislation on banking, privatization, bankruptcy and other key areas, undertaken tax reform, implemented trade and exchange reform, liberalized investment laws and begun the process of privatization. Housing privatization is close to completion in most regions. The privatization law permits privatization in all sectors of the economy, including defense, and does not discriminate against non-citizens. Kazakhstan introduced its national currency, the "tenge", in November 1993 which has helped it establish an independent monetary policy. An OPIC agreement, a trade agreement and a bilateral investment treaty are in force, and a treaty to avoid double taxation is awaiting ratification by both the U.S. and Kazakhstani governments. Kazakhstan is a member of the International Monetary Fund, the International Bank for Reconstruction and Development, the EBRD and the ADB. Kazakhstan negotiated an IMF standby program which went into effect in January 1994. Further funding was suspended this spring due to Kazakhstan's failure to stay within IMF guidelines, but financial discipline has since improved.

In October 1994, President Nazerbayev requested the resignation of Prime Minister Tereshchenko and his cabinet, citing the need for accelerated economic reform. The new government under Prime Minister Akezhan Kazhegeldin is more clearly committed to economic reform.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Freedom of assembly and religion are generally respected, but freedom of movement within the country is occasionally limited. The Committee for National Security (KNB) has legal authority to deny permission to travel in and out of the country. The press is increasingly pluralistic, with a large number of non-official publications, although we continue to receive credible reports of government harassment of independent media. While ethnic Slavs and other minorities are concerned about increasing discrimination in favor of ethnic Kazakhs in government employment, state-controlled enterprises, education and housing, President Nazarbayev has publicly emphasized that all nationalities are welcome and entitled to equal treatment under the law. The constitution includes substantial protections for individuals, including members of non-Kazakh ethnic groups.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Kazakhstan has made a strong commitment to respect the observance of international legal obligations and CSCE commitments. Kazakhstan is at peace with its neighbors, and is in the process of forming a

defensive military force that would not be an offensive threat to the region. Kazakhstan is also a strong proponent of dialogue and cooperation among the states of the former Soviet Union. Kazakhstan has applied for membership in the Partnership for Peace and has submitted a Presentation Document.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Kazakhstan is involved and supportive of regional and international efforts to resolve peacefully the conflict in Tajikistan, and has also played a constructive role in trying to achieve peaceful settlement of the conflict between Armenia and Azerbaijan. Kazakhstan is committed to establishing a multi-ethnic national identity and is particularly sensitive to the concerns of the large ethnic Russian community in Kazakhstan.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;

(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;

(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and

(D) restraining conventional weapons transfers."

Kazakhstan was the second NIS with nuclear weapons on its soil at the time of independence to accede to the NPT as a non-nuclear weapon state, doing so in February, 1994. Almaty has also ratified the CFE and START treaties and is a full successor and participant in the INF Treaty and is likely to become so with respect to the ABM Treaty. Kazakhstan is also committed to maintaining a military force consistent with legitimate defense requirements. We do not believe that Kazakhstan has engaged in significant transfers of conventional weapons, or in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Kazakhstan is an original signatory to the multilateral Chemical Weapons Convention, which calls for the eventual elimination of chemical weapons. Kazakhstan signed a full-scope safeguards agreement in July 1994 and is preparing the required inventory for the IAEA. Kazakhstan's November 1994 sale to the U.S. of approximately 600 kilograms of highly enriched uranium demonstrated Almaty's willingness to work closely with the U.S. to advance global peace and stability.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Kazakhstan suffered severe environmental degradation under Soviet rule, and there is broad-based support for domestic protection of the environment. Kazakhstan has shown an interest in regional cooperation on environmental

issues, and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues. Kazakhstan has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a Ministry of Environment and the introduction, at least on an experimental basis, of a pollution fee system by which taxes are levied on air and water emissions and solid waste disposal, with the resulting revenues channeled to environmental protection activities. National environmental NGO's are gaining access to the policy-making process on environmental issues.

Kazakhstan has been an active and constructive player in regional and international efforts addressed to alleviate the deteriorating environmental conditions and foster regional cooperation in the Aral Sea basin. Kazakhstan President Nazarbayev is also President of the International Fund for Saving the Aral Sea. Kazakhstan has worked with the World Bank and international donors on a 15- to 20- year plan to stabilize the Aral Sea. The government is currently considering a draft bilateral agreement on the environment which it has discussed with the U.S. over the last year. Kazakhstan is currently engaged in talks with Russia, Turkmenistan, Azerbaijan and Iran on environmental protection of the Caspian Sea. These marine environmental protection talks will include discussion of development of the mineral resources of the Caspian seabed and use of the sturgeon population in a way that protects the Caspian ecosystem.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Kazakhstan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Kazakhstan signed both the October and December 1991 agreements. The December 1991 agreement provided that Kazakhstan's share of the FSU debt would be 3.86 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In September 1993, Kazakhstan signed a "zero option" agreement with Russia under which Russia will pay Kazakhstan's share of the debt in return for its share of the assets.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 15, 1994. Consistent with the terms of the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Government of Kazakhstan has been cooperative with all related interviews conducted in Kazakhstan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Kazakhstan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Grounds of Ineligibility
Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Kazakhstan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. Although the human rights record in Kazakhstan is mixed (as discussed above), we do not believe that the Government of Kazakhstan is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Kazakhstan "has failed to take constructive

actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. The Government of Kazakhstan has taken a significant number of such constructive actions (as discussed above), including ratification of START I. Kazakhstan deposited its instrument of accession to the NPT in 1994.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Kazakhstan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Kazakhstan has made such transfers.

Section 498A(b)(4): Is the Government of Kazakhstan "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Kazakhstan is not prohibited from receiving assistance under these statutes.

KYRGYZ REPUBLIC

Criteria for U.S. Assistance
Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

President Akayev and his ministers have expressed strong commitments to human rights, democracy and the rule of law. However, several events in 1994 called this commitment into question; primarily Akayev engineered a parliamentary boycott which led to the dissolution of the Parliament in September, an act widely seen as an abuse of the Constitution. His appointment of a Central Election Commission, and his decree calling for early elections were

unconstitutional. (The elections were subsequently delayed until February 5, 1995.)

The Kyrgyz Republic's constitution gives substantial guarantees of rights for its citizens, including members of non-Kyrgyz ethnic groups. Nevertheless, discrimination by ethnic Kyrgyz government officials against non-Kyrgyz citizens has remained a common complaint of the Russian-speaking and Uzbek population. The Government of the Kyrgyz Republic supports efforts to cultivate political activity by its citizens, and opposition groups are free to organize and conduct political activities. It should be noted, however, that the Kyrgyz government arranged the closure of two newspapers in August 1994, primarily because of their criticism of the Akayev administration. The February 5 election will be the first ever multi-party/multi-candidate elections in the Kyrgyz Republic.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The Kyrgyz Republic has made significant progress in restructuring its economic system and implementing legislation that will be the basis for a market economy. The Kyrgyz Republic introduced its own national currency, the "som", in May 1993, which has given the Government greater control over its monetary policy. The parliament adopted favorable laws on privatization, joint ventures, foreign trade and investment and free economic zones. A trade agreement with the United States provides reciprocal MFN status and contains IPR (intellectual property right) provisions. An OPIC agreement is also in force. A bilateral investment treaty has been concluded with the United States and entered into force in January 1994. A bilateral tax treaty is under negotiation. The Kyrgyz Republic is a member of the EBRD, IBRD, ADB and IMF.

Demonstrating the Kyrgyz leadership's commitment to economic reform, the Kyrgyz Republic was the first of the NIS to receive a full IMF standby agreement and to draw on the new IMF lending program, the Systemic Transformation Facility. Some slippage of reform occurred in 1993, but was corrected in early 1994. In July 1994, the Kyrgyz Republic became the first republic to be approved for a three-year IMF loan under the Enhanced Structural Adjustment Facility, a facility for eligible countries undertaking economic reform programs.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

With some notable exceptions, internationally recognized human rights appear to be generally respected in the post-Soviet Kyrgyz Republic. The Kyrgyz Republic has hosted international human rights conferences on Central

Asia in 1992 and 1993. President Akayev has sought to reassure ethnic minorities while simultaneously trying to satisfy Kyrgyz aspirations for greater national identity. The new constitution includes substantial protection for individuals, including members of non-Kyrgyz ethnic groups.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Kyrgyz Republic has made a strong commitment to respect the observance of international legal obligations and CSCE commitments. The Kyrgyz Republic is at peace with its neighbors, and is also a strong proponent of dialogue and cooperation among the states of the former Soviet Union.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The Kyrgyz Republic supports regional and international efforts to resolve peacefully the conflict in neighboring Tajikistan. The government of the Kyrgyz Republic is committed to establishing a multi-ethnic national identity and is particularly sensitive to the concerns of the non-Kyrgyz ethnic groups in the Kyrgyz Republic, although there are credible allegations of discrimination against individual government officials.

Section 498A(a)(6): "implement responsible security policies, including--

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
- (D) restraining conventional weapons transfers."

The Government of the Kyrgyz Republic has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. The Kyrgyz Republic acceded to the NPT on July 5, 1994. The Kyrgyz Republic is also committed to maintaining a small, defensive military force or national guard. The Kyrgyz Republic has said that it is strongly opposed to the proliferation of weapons of mass destruction, their delivery systems or related technologies. We do not believe that the Kyrgyz Republic has engaged in significant transfers of conventional weapons, or in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. The Kyrgyz Republic is a signatory to the multilateral Chemical Weapons Convention.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of

natural resources."

The political system does provide for public participation in the formation of policy which affects the environment. However, the Kyrgyz Republic's Ministry of the Environment remains small and underfinanced. The government is willing to work with the United States and the international community on environmental issues, and has participated in conferences on regional environmental problems.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of the Kyrgyz Republic does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. The Kyrgyz Republic signed both the October and December 1991 agreements. The December 1991 agreement provided that the Kyrgyz Republic's share of the FSU debt would be 0.95 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In August 1992, the Kyrgyz Republic signed a "zero option" agreement with Russia under which Russia will pay the Kyrgyz Republic's share of the debt in return for its share of the assets.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 15, 1994. Consistent with the terms of the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable

to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Commission has not initiated direct negotiations with the Kyrgyz Republic.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of the Kyrgyz Republic is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Grounds of Ineligibility
Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of the Kyrgyz Republic has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. We do not believe that the Government of the Kyrgyz Republic is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of the Kyrgyz Republic "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of the Kyrgyz Republic has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of the Kyrgyz Republic "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of the Kyrgyz Republic has made such transfers.

Section 498A(b)(4): Is the Government of the Kyrgyz Republic "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of the Kyrgyz Republic is not prohibited from receiving assistance under these statutes.

MOLDOVA

Criteria for U.S. Assistance

Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A (a) (1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Throughout 1994 Moldova took steps to consolidate its independence and continue its transition to democracy and a market economy. Parliamentary elections were conducted in a generally free and fair manner in February, resulting in the election of a smaller, less-divisive legislature comprising four different political factions. The Democratic Agrarian Party won a slight majority in parliament and formed a new government. The parliament succeeded in passing the long-stalled Moldovan constitution, which enshrines basic principles of human rights, rule of law, and democratic governance.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

Moldova continues to make progress in building the framework for a market economy. However, several factors have slowed down the reform process including severe natural disasters in the form of droughts and flooding as well as civil conflict in the Transdnistria region. Moldova has passed many of the basic laws needed for economic reform (including a privatization law), has freed the prices of most goods, has begun to privatize small retail and service enterprises, and in November 1993 introduced a new currency. In 1993 it began to implement an IMF reform program. In 1994, the structural reform actions taken in conjunction with the IMF program included the holding of the first privatization auction for medium- and large-sized

enterprises and elimination of export quotas on most products. A bilateral trade agreement extending reciprocal MFN and containing IPR (intellectual property right) provisions entered into force in 1992. An OPIC agreement entered into force in 1993 and a bilateral investment treaty in 1994.

Moldova is a member of the IMF, IBRD and EBRD. Based on its stabilization program, the IMF loaned Moldova SDR 45 million under the Systemic Transformation Facility, and up to SDR 50 million over a 15-month period through the stand-by arrangement. The World Bank approved a rehabilitation loan in 1993 for USD \$60 million, another \$60 million in December 1994 for a structural adjustment loan, and \$26 million for drought recovery.

Section 498A (a) (3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Basic human rights such as freedom of speech, press, assembly and religion are generally respected. Despite continued tensions between ethnic groups and political forces, such as the separatist dispute in the Trans-Dniester region, and the human rights violations associated with it, the human rights situation in Moldova remained generally positive in 1994. Questions concerning ethnic minorities are somewhat less tense after a deadline for testing competency in the national Moldovan (Romanian) language was extended by several years. The new constitution provides the legal framework to ensure protection of minority rights, and has received positive assessments from Western experts. Moldova abolished exit visas for travel abroad. While the government has not passed new emigration legislation, there were no known cases denying permission to emigrate in 1994.

Section 498A (a) (4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

Moldova takes seriously its membership in the CSCE and its obligations under the Helsinki Final Act. A 1992 Russian-brokered cease-fire in the separatist Trans-Dniester region has held firmly since July 1992. The cease-fire established a tripartite peacekeeping force (comprised of Moldovan, Russian, and Trans-Dniestrian units) that has prevented a return to the use of force in the region. Negotiations aimed at resolving underlying issues in this conflict continue, as does the work of a CSCE mission there.

Section 498A (a) (5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Since the inception of the military conflict in the Trans-Dniester region, the Moldovan government has sought to cooperate with its neighbors--Romania, Ukraine and Russia--in seeking a peaceful resolution of this conflict. The Moldovan government succeeded in negotiating with Russian

and Trans-Dniestrian officials an effective cease-fire in 1992. Moldova has cooperated with both CSCE and UN fact-finding/observer missions sent to the area and has consistently called for international mediation assistance. A CSCE mediation mission began working in Moldova in April 1993; its mandate has been extended through mid-1995.

Section 498A (a) (6): implement responsible security policies, including --

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;

(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;

(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and

(D) restraining conventional weapons transfers."

Moldova has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Moldova has fulfilled all obligations of the CFE Treaty, even accepting an inspection of forces on its territory that was not mandated by the letter of the agreement. Moldova's own armed forces are still in the formative stage, with a manpower objective at about one percent of total population. Moldova acceded to the NPT in October in Washington. We do not believe that Moldova has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Moldova is a signatory to the multilateral Chemical Weapons Convention. While Moldova has received some military equipment from Russia and Romania, such conventional weapon transfers have been very limited. There were credible reports that Moldova sold attack/fighter aircraft in 1994 that reached Southern Yemeni forces during the Yemen conflict.

Section 498A (a) (7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

While information on specific "constructive actions" undertaken by the Moldovan Government is limited, we have no information or reason to believe that Moldova has contributed to transborder pollution or environmental abuse.

Section 498A (a) (8): "deny support for acts of international terrorism."

The Government of Moldova does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A (a) (9): "accept responsibility for paying an equitable portion of the indebtedness to the United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union

dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Moldova signed the October but not the December 1991 agreements. The December 1991 agreement provided that Moldova's share of the FSU debt would be 1.29 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In October 1993, Moldova signed a "zero option" agreement with Russia under which Russia will pay Moldova's share of the debt, in return for its share of the assets as defined by the December 1991 agreement.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 25, 1994. Consistent with the terms of the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A (a) (10): "cooperate with the United States Government in uncovering all evidence regarding American listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Commission has not initiated direct negotiations with Government of Moldova.

Section 498(a) (11): "terminate support for the communist regime in Cuba, including removal of troops, closing off of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Moldova is not providing military, economic, nuclear, or other assistance to the Government of

Cuba.

Checklist for Grounds of Ineligibility
Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Moldova has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. There have been shortcomings in human rights observance; these have, however, often been on the part of separatist "authorities," and we do not believe that the Government of Moldova is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Moldova "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Moldova has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Moldova "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Moldova has made such transfers.

Section 498A(b)(4): Is the Government of Moldova "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Moldova is not prohibited from receiving assistance under these statutes.

RUSSIA

Criteria for U.S. Assistance
Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Russia has continued to make important progress towards building fundamental democratic institutions. In December 1993, the Russian people voted to approve a new Constitution, replacing its heavily-amended Soviet-era predecessor. This new Constitution provides strong guarantees of individual freedoms. The government took a step forward in 1994 by reestablishing a Constitutional Court, which is the only body with the authority to settle constitutional disputes; however, the Court has not yet begun operations because of governmental delays in filling Court vacancies.

In December 1993, the Russian people elected a bicameral legislature in Russia's first free and fair parliamentary elections in over 70 years. Russia's new parliament is exercising its ability to check and balance the executive branch. We are working closely with the Russian Government on judicial programs to help reintroduce adversarial jury trials, which promote judicial independence and respectability and furthers the establishment of a rule-of-law state.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

President Yeltsin remains committed to the creation of a market economy. There has been considerable progress in the area of structural reform, but the development of the institutional framework to support a market economy is not complete. Privatization, an important element of reform, has made good progress. By some estimates, about half of Russia's GDP now comes from the private sector. According to the State Statistics Committee, more than half the workforce earns at least part of its income in the private sector, and 70% of state-controlled industry has been fully or partially turned over to private owners since market reforms began in 1992. However, in many cases, control of former state enterprises remains to a large degree in the hands of the managers that operated them during the Soviet era. On July 22, President Yeltsin signed a decree mapping out the strategy for the second stage of privatization of state and municipally-owned enterprises.

The government has lifted restrictions on private economic activity, which will help in the creation of new economic entities. As the Russian government is forced to abandon central planning, even state-owned enterprises are beginning to operate on market principles.

In the area of monetary and fiscal policy, the government

was able to meet moderately austere budget targets only by sequestration, i.e., not allocating budgeted expenditures, or not paying its bills. (There is now concern that monetary expenditures for Chechnya may drive the budget even further into deficit.) There has been a significant revenue shortfall, with around 60 -65% of projected revenues actually collected. Monetary policy was generally restrained until the need to provision the Far North and prepare for the harvest prompted an upsurge in credit emissions in the late summer. Inflation, which had been steadily declining from February on, reached 5% per month in July and August; after September, however, it rose to the 14-16% range through the end of the year. Russia has allowed the foreign exchange value of the ruble to be set by the market with limited state intervention. (The ruble had declined slowly against the dollar until September, when it began to steeply depreciate, culminating in a precipitous fall in value in early October -- which, however, was largely reversed through imposition of stricter margin requirements on trading and central bank intervention.) Price liberalization has decontrolled most prices, but prices for energy, public transportation and housing are still below market levels.

Russia has made progress toward integration into the world economy. In 1992, Russia was admitted to the IMF and the World Bank. It is also a member of the EBRD. Russia has received two tranches of the IMF's "Systemic Transformation Facility" (STF) and is currently in negotiations for additional IMF resources.

Russia has abandoned the monopoly on foreign trade granted to state-owned Foreign Trade Organizations during the Soviet era, allowing both private companies and state-owned enterprises to engage in foreign trade operations. Russia has applied for accession to the GATT and the WTO. Russia has concluded negotiations with the U.S. on a series of economic framework agreements. The U.S.-Russia trade agreement entered into force in June 1992. The bilateral investment treaty was signed in June 1992 and approved by Congress in August. The Russian Duma is holding hearings on the BIT, but has not yet voted on ratification. The bilateral tax treaty entered into force in December 1993. An OPIC agreement is also in force. Russia is eligible for Ex-Im public sector short- and medium-term financing. It receives GSP benefits.

Russia signaled its intent to protect intellectual property rights (IPR) with the signing of the bilateral trade agreement and the establishment of the Russian Intellectual Property Agency, mandated to promote the enactment of strong IPR legislation and to develop regulations and enforcement mechanisms to curb IPR violations. The Russian Parliament passed a number of laws which strengthen the protection of intellectual property. These include a new patent law, which accords with the norms of the World Intellectual Property Organization; the Law on Trademarks and Appellations of Origin (which provides for appellation of origins protection in Russia for the first time); the Law on Semiconductor Chip Layout Designs and the Law on Computer Programs and Databases. Efforts are also underway in the

Parliament to draft a new copyright law. However, sound recordings are still not protected and currently penalties, (civil and criminal) do not provide sufficient deterrent. Enforcement procedural codes are needed to provide injunctive relief. In addition, for the law to be effective, civil and criminal intellectual property cases should be more aggressively enforced by the police and the courts.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Russia's three-year old democracy has made great progress in human rights. Despite these substantial steps forward, we are concerned about the implications for democracy and human rights of the tragic events still unfolding in Chechnya. Russian military tactics resulted in extensive bloodshed and widespread civilian casualties. We continue to urge all involved in this tragedy to seek a peaceful resolution that will create a durable settlement and that will respect law and the human rights of all concerned. We have urged the Russians to fulfill the commitments they undertook in the Geneva Conventions, the Helsinki Final Act, and the provisions of the OSCE. Media coverage on Chechnya has been largely unrestricted. We will be monitoring the situation closely, and discussing our concerns with the Russian government as appropriate.

A radical change in human rights monitoring has been the growing acceptance, strength and influence of human rights groups, both official and unofficial. Increasingly, respect for the rights of the individual is replacing the communist emphasis on responsibilities of the individual to the State.

Russia's Constitution, approved by referendum in December 1993, provides strong guarantees of individual freedoms. Although the Russian parliament has been unable to pass implementing legislation in many areas, the guarantees in the Constitution of human rights, rule of law, and the fundamental freedoms of speech, press, religion, assembly and movement are taking root, and have also played a major role in defining the human rights dialogue in the Russian Federation. Promoting an independent judiciary is necessary to ensure that these rights are safeguarded and enjoyed in practice. One important step in this direction would be the re-establishment of a functioning Constitutional Court and greater on-the-ground progress on setting up functioning courts at the regional and local level.

Freedom of assembly and association as well as freedom of speech continue to be respected. Freedom of emigration is now a reality in Russia. President Clinton recognized the progress made by the Russian government in this area on September 21, 1994 when he made a formal determination that Russia was in compliance with the Jackson-Vanik provisions. Certain practices, however, have not been codified into law due to the difficulty of passing legislation. The law proposed in 1991 on exit and entry is still being implemented even though it is not officially enacted. The Russian parliament hopes to begin review of a new law on

emigration soon. Sustained progress on emigration will help convince the U.S. Congress that graduation, which would remove Russia from the Jackson-Vanik provisions entirely, is appropriate.

The Interagency Commission on State Secrecy continues its monthly review of approximately ten cases at each session of would-be emigrants and non-emigrants who had access to classified material who must wait five years before they can receive a passport. As of November 29, 1994, the Commission had reviewed 190 cases. There have been several cases when the refusal was upheld, but the vast majority have been given permission to receive a passport. So-called "poor relative" cases, in which permission to emigrate is refused on the basis of unresolved financial obligations to immediate relatives, have begun to be heard in Russian courts.

Restrictions on freedom of travel are still imposed through the selective enforcement of the "propiska" (residence permit) system against dark-complexioned people. Refugees from Central Asia and the Caucasus still meet discrimination in the major cities.

The Russian government has taken several important initiatives on human rights. One of the most important of these initiatives was the publishing in August 1994 of a critical and blunt "Report on the Observation of Human and Civil Rights in the Russian Federation in 1993" submitted to President Yeltsin in June 1994 by the President's Commission on Human Rights headed by former dissident, current Russian constitutional ombudsman and presidential human rights advisor Sergey Kovalev. The nearly fifty page report stated that the Russian Federation has "serious intentions and activities to observe human rights," but that "serious and widespread human rights violations still occur." The report cited the following areas of special concern: police brutality, unfit penal system conditions, unclear laws, hazing in the armed forces, and discrimination against ethnic minorities and refugees from former Soviet republics.

Additional concrete steps Russia could take to improve its human rights performance include: work towards a peaceful resolution of the Chechnya conflict that will create a durable settlement and that will respect law and the human rights of all concerned, institutionalizing the court mechanism to review denials of the right to emigrate based on the lack of permission from close relatives, implementing and universally observing the Constitution's provisions on the protection of refugees and freedom of movement, and ensuring that Russian laws providing for the return of private property confiscated by the Soviet Union, such as the Schneerson books and manuscripts, are quickly enforced, setting up a tradition of trial-by-jury throughout Russia and providing for the legal infrastructure to support it.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes

peacefully."

The Government of Russia has repeatedly pledged, both publicly and privately, to support all OSCE principles, including territorial integrity, national sovereignty, non-use of force and peaceful settlement of disputes.

In the OSCE code of conduct on politico-military aspects of security, signed in December 1994, the Russians pledged to counter tension that might lead to conflict, to support the peaceful settlement of disputes, and to facilitate the movement of humanitarian assistance in areas that needed it. In the context of the Chechnya conflict, we strongly urged the Russians to do everything possible to fulfill these commitments.

The U.S. government has been in frequent contact with the Russians and the representative of the OSCE Chairman-in-office concerning respect for international commitments and standards in Chechnya. We instructed our representative to the January 12 meeting of the OSCE Permanent Council to voice the strongest U.S. concern that Russia had not fulfilled all of its OSCE commitments and strong support for the involvement of the OSCE in finding a solution to this crisis.

Russian leaders, including President Yeltsin in his address at the opening of the 1994 UN General Assembly, have called for greater United Nations and OSCE peacemaking efforts in the former Soviet Union and disclaimed any Russian "neo-imperial" plans for the region. Russia has, to varying degrees, been supportive of OSCE missions and UN peace efforts in a number of countries, including Georgia, Latvia, Estonia, Tajikistan and Azerbaijan (Nagorno-Karabakh). On the other hand until recently, Russia hampered the efforts of the OSCE Minsk Group to provide a settlement in Nagorno-Karabakh; significant progress was made at the Budapest OSCE Summit, however. Russian diplomats also delayed progress on an OSCE third-party peacekeeping principles paper that was to have been agreed in Budapest, but which will now be returned to Vienna for continued work.

In some cases, Russian forces left stationed on the territory of neighboring states have complicated ethnic conflicts in these states. The facts concerning the role of the Russian central government in such cases are not always entirely clear, however. We continue to seek a more complete understanding of the role played by Russia in each of the conflicts in the other NIS and do not hesitate to raise with Moscow any concerns we may have.

In 1994, Russia completed bilateral negotiations with Latvia and Estonia to reach agreements on timetables for removal of the last Russian forces in these countries. Except for a small number of Russian technicians who remained behind under these agreements (and who will be withdrawn soon), all Russian active duty troops departed Latvia and Estonia by August 31, 1994.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Russia has contributed significantly in the search for peaceful resolution to a number of regional conflicts on its borders. Examples of cooperative elements in the Russian approach include:

Russia continues to cooperate with a Georgia-based OSCE mission charged with bringing Ossetians and Georgians to the negotiating table.

In 1992, Russia helped broker cease-fire agreements in Moldova, South Ossetia and Nagorno-Karabakh. The truce accords in Moldova and South Ossetia still hold today. Russia and Moldova signed an agreement on October 21, 1994 for the withdrawal of Russian troops from Moldovan territory, although it has not yet entered into force. The agreement, setting a three-year timetable for withdrawal, has been submitted to the Duma for ratification.

Russia voted with the rest of the UN Security Council to create the UN Observer Mission in Georgia (UNOMIG) and appoint a special UN representative to head peace talks between the Georgian Government and representatives of Abkhazia. On December 1, 1993 these talks yielded an eight-point agreement among the Abkhaz, Russian and Georgian negotiators in which the parties resolve to settle differences peacefully.

Russia participates in the Minsk Group peace process, which is the OSCE's negotiating forum for a peaceful settlement of the Nagorno-Karabakh conflict. At the same time, it pursued separate talks with the disputing parties, which have complicated the Minsk Group efforts. However, at the Budapest Summit, Russia agreed that an OSCE peacekeeping force would be used in Nagorno-Karabakh.

Russian forces that were left in Tajikistan at independence, together with reinforcements from Russia and forces from Uzbekistan and the Kyrgyz Republic, operate in Tajikistan at the request of the Tajik Government and pursuant to resolutions of states in the region. Russia has requested that the international community consider extending OSCE and/or UN mandate to the activities of these forces.

Russia approved of OSCE missions in Estonia and Latvia.

Russia has been constructive in mediating international conflicts through its participation as a cosponsor of the Middle East peace process and its support of UN and other multinational initiatives in the Persian Gulf, Cambodia, Angola and former Yugoslavia.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;

(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;

(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies;

and

(D) restraining conventional weapons transfers."

Arms Control. The Government of Russia continues to make progress resolving arms control issues inherited as a result of the disintegration of the Soviet Union, including the fulfillment of obligations undertaken in connection with the ABM, INF, START I and CFE Treaties. The Russian parliament ratified the START I Treaty on November 4, 1992, which entered into force December 5, 1994. The detailed work of implementing the Treaty is well underway, and has included discussions to resolve a number of Russian concerns regarding early implementation issues, including the timing of inspections. The U.S. and Russia signed the START II Treaty on January 3, 1993.

With the START I Treaty in force, it is important for Russia to complete the legislative steps required for START II ratification. At the September 1994 U.S.-Russian Summit, President Yeltsin and President Clinton expressed the desire to exchange START II instruments of ratification at the next U.S.-Russian Summit.

Russia should, with the other seven CFE successors to the Soviet Union, complete an accounting of the disposition of all former Soviet equipment limited by the Treaty. Russia has generally fulfilled its CFE obligations to date, including responsibility for completing the first and second phases of CFE-mandated equipment destruction. Russia is currently engaged in priority discussions with its CFE Treaty partners regarding its desire to deploy more Treaty-limited equipment in the Treaty's flank zones than the Treaty permits. Russia has pressed this point, including at the highest levels, stating that the flank limits unduly restrict Russia's ability to meet its perceived defense planning requirements.

In September 1989, the U.S. and the Soviet Union signed the Wyoming Memorandum of Understanding (MOU), which called for an exchange of data on chemical weapons (CW), and for visits and inspections to relevant military and civilian facilities. Phase I of the MOU was completed in February 1991. Documents allowing for the second and final phase of the MOU were agreed upon at the January 1994 Moscow Summit. Russian implementation of Phase II has yielded problematic results. U.S. inspections of Russian facilities were carried out in accordance with the MOU. The practical experience gained from these visits will be reflected in inspections carried out under the Chemical Weapons Convention (CWC). On the other hand, the U.S. believes that several key questions and concerns have not yet been resolved in Russia's data declaration. As provided under the MOU's consultative mechanisms, bilateral consultations have been held in August, October and December of 1994 to discuss U.S. concerns. Overall, these initial consultations revealed a lack of agreement on certain issues related to MOU implementation. The U.S. continues to have significant concerns about Russian implementation of the Wyoming MOU. President Yeltsin and other senior Russian officials have expressed support for the MOU. However, Russia still must take concrete steps to fulfill its commitment and resolve

existing problems.

In January 1993, Russia signed the multilateral Chemical Weapons Convention (CWC), which calls for the eventual elimination of chemical weapons. Following Russia's signing of the CWC, the Duma committee responsible for the Convention prepared and presented to President Yeltsin a plan for ratification. The Duma began hearings on the CWC in the Spring of 1994. Several factors--including Russian economic problems and environmental concerns as a result of CW destruction--complicate prospects for a smooth and quick ratification process. Nevertheless, the government of Russia has made clear that it assumes full responsibility for destruction of its CW stockpile, and has repeatedly expressed support for the CWC. U.S. technical and financial assistance is designed to help Russia step up efforts to demilitarize and reduce its chemical weapon stockpiles.

With respect to the 1972 Biological and Toxin Weapons Convention (BWC), the United States has determined that the offensive biological weapons program that Russia inherited from the Soviet Union violated the BWC at least through March 1992. In early 1992, President Yeltsin confirmed that the BW program that Russia had inherited from the Soviet Union violated the BWC, and issued a decree in April 1992 prohibiting activities inconsistent with the BWC. We believe that President Yeltsin is sincere in this commitment, but we will follow developments in this area very closely.

In September 1992, the United States, U.K. and Russia agreed at the conclusion of talks in Moscow on a joint statement outlining a series of steps to increase confidence that Russia has terminated its offensive BW program. Among other things, the Trilateral Statement provides for visits to non-military and military biological facilities in all three countries, data exchanges on past offensive BW programs and on the status of dismantlement of offensive capabilities, and meetings between experts. To date, a number of these activities have been carried out satisfactorily. At the September 1994 Summit, Presidents Yeltsin and Clinton agreed on the importance of full and continued implementation of the Trilateral Statement as a means of providing confidence that the BW program Russia inherited from the former Soviet Union has been terminated. The U.S. firmly believes that the best course to ensure Russian compliance with the BWC is to pursue transparency and openness of BW-related activities and to seek continued implementation of the Trilateral Statement.

We have significant concerns about Russia's current arms control compliance in some areas, notably biological and chemical weapons -- we believe, however, that senior Russian officials are committed to fulfilling Russia's arms control obligations. We base this judgment on repeated expressions of commitment to arms control compliance by President Yeltsin and other senior Russian officials as well as concrete steps that have been taken since December 25, 1991, by Russia to comply with relevant arms control agreements. As noted, this Russian commitment has not been fully implemented and therefore the status of Russian compliance

performance remains under our constant, careful review. Additional information on our concerns are contained in the classified "Report on Demonstration of Russian Commitment to Comply with Three Agreements on Chemical and Biological Weapons" dated October 1, 1994.

Reducing Forces and Expenditures. The Government of Russia has significantly reduced its military expenditures and is planning to restructure its forces in accordance with a new military doctrine that incorporates a much more limited definition of defense requirements than that promoted by the Soviet Union. The requirements of the CFE Treaty and the CFE IA agreement on personnel limits will also result in significant reductions of Russian forces in the Treaty's area of application.

Nonproliferation. The United States and Russia have engaged in an active and productive dialogue concerning nonproliferation of nuclear, biological and chemical weapons, their delivery systems, and related technologies. Russia exercises rights and responsibilities derived from the USSR under the NPT as a nuclear weapon state, including the function as one of the NPT's three co-depositaries. The U.S. has signed a bilateral agreement with Russia to purchase low-enriched uranium (LEU) blended down from at least 500 metric tons of HEU (highly enriched uranium) from nuclear weapons; the HEU will be converted to LEU for use in nuclear power reactors so that it can never again be used for nuclear weapons. Russia supports the U.S. goal of achieving a comprehensive test ban treaty (CTBT) as soon as possible, and concurs with our view that a CTBT is a key component of a broader nonproliferation strategy. Recognizing the dangers posed by growing stockpiles of fissile materials worldwide, Russia is cooperating with the United States to work towards limiting and reducing such stocks and ensuring that existing stocks are placed under effective controls. Russia supports the U.S. proposal of a universal, verifiable and non-discriminatory convention banning the production of fissile materials for nuclear explosive purposes. Russia has also agreed to consider a U.S. proposal to place fissile materials in excess of their nuclear deterrent requirements under IAEA safeguards. Russia has worked to control and reduce the threat of the delivery systems of weapons of mass destruction arising from the disintegration of the former Soviet Union.

Russia is in the process of implementing comprehensive export control legislation and establishing an effective enforcement mechanism. On September 2, 1993, Russia and the United States signed a bilateral Memorandum of Understanding that commits Russia to abide by the criteria and standards of the MTCR. Additionally, Russia agreed to modify a contract with the Indian Space Research Organization that had raised sanctions concerns. We have also raised with the Russians our concerns about potential sales of nuclear technology, ostensibly for peaceful purposes, to Iran.

We periodically receive reports of weapons-of-mass-destruction proliferation-related transfers involving Russia which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of

these reports has resulted in a sanctions determination during the reporting period.

Conventional Arms. The United States and Russia maintain active contacts on a wide range of conventional arms transfer issues. The Government of Russia has generally complied with its obligations to observe UN arms sanctions against Iraq, Libya, Haiti and the former Yugoslavia, and has worked with the UN Sanctions Committee as questions have arisen. Russia has moved away from past policies of arms transfers for ideological or strategic purposes. The Russian government has assured us that Russia is competing in the international weapons market as a responsible supplier which adheres to international laws and agreements, cognizant of the importance of maintaining stability. Russia voted with the United States to adopt the UN's Transparency in Armaments Resolution in 1992 and both the United States and Russia are members of the five-power ACME initiative on arms transfers to the Middle East. Russia worked with other OSCE states to formulate an OSCE-wide approach to arms transfers. Despite U.S. objections, however, Russia has proceeded with conventional arms sales to Iran, including a total of three Kilo class submarines, under contracts entered into before the current fiscal year. Such transfers continue to be reviewed in light of the sanctions provisions of the Iran-Iraq Arms Non-Proliferation Act. Additional information on the sanctions implications of such transfers in light of the Iran-Iraq Non-Proliferation Act has been provided to the Congress on a classified basis. Russia has supported the Transdniestrian separatists with considerable arms transfers.

During the September Summit, President Yeltsin publicly pledged that Russia would not enter into new arms contracts with Iran. We are engaging the Russian Government at senior levels to implement the conceptual framework for ceasing such transfers as agreed to by the two Presidents. Resolving this issue would also allow us to support Russia's earliest participation in the COCOM successor regime.

We are also pressing Russia to refrain from further sales of major weapons systems to Iran, and limit transfers to other countries that would significantly upgrade the recipient's military capabilities or alter a regional military balance.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Having inherited a deplorable environmental situation, Russia has been working with the U.S. and the international community to develop and implement effective environmental policies, which are now having results. The Ministry of Environmental Protection and Natural Resources has sought reforms in national policies to address environmental concerns, but environmental protection is severely hampered by a lack of financial resources at both the regional and national levels. The Russian Ministry of Environmental Protection and Natural Resources (MEPNR), despite massive cuts in Russian government agencies, continues to function

tolerably well, given its size and resources. MEPNR has made some progress in upgrading its operations and is beginning to make a difference in the environmental situation in Russia. Former presidential advisor Aleksey Yablokov started an intergovernmental committee to address specific environmental problems so action could be taken promptly (the Interagency Commission for Ecological Security for Moscow's National Security Council).

In early March 1993, the Russians issued the so-called "Yablokov Report", an interagency report on the dumping of radioactive nuclear waste by the FSU and, more recently, by Russia. Since then, U.S.-Russian cooperation in this area increased. The United States has sponsored visits by Russian experts to U.S. nuclear facilities as a first step in upgrading their facilities. At the Clinton-Yeltsin Summit meeting in September 1994, the United States and Russia announced a cooperative program to upgrade and expand a radioactive waste treatment in Murmansk. On December 15, 1994, the United States and Russia also signed an agreement concerning cooperation in the prevention of pollution in the Arctic, which includes within its scope the prevention of radioactive waste pollution.

Russia is also cooperating with other states bilaterally in this area. Japan is providing assistance to Russia in building a radioactive waste disposal facility in the Pacific. As a result of this cooperation with the United States and others, Russia has indicated its intent eventually to withdraw its objection to the provision of the London Dumping Convention of 1972 prohibiting the dumping of low-level radioactive waste, and to comply voluntarily with that provision in the interim.

Other U.S.-Russian bilateral environmental cooperation continued to strengthen in 1994 with the entry into force of a framework agreement on cooperation in the field of protection of the environment and natural resources. The Arctic pollution agreement mentioned above reflects a commitment to tackle a broad spectrum of pollution issues in addition to radioactive waste. The Gore-Chernomyrdin Commission continues to meet regularly and coordinate numerous cooperative projects in the environmental area.

The Russian Parliament ratified the Framework Convention on Climate Change in October 1994, and the U.S. and Russia are collaborating in implementing the provisions of the Climate Convention.

The situation concerning an oil spill from a locally controlled pipeline in the Autonomous Republic of Komi in late 1994 is still evolving. The Russian Federation has applied for a \$100 million loan from the World Bank to finance pipeline repairs. Meanwhile, remediation efforts are proceeding slowly, and additional oil leaks are occurring which may threaten salmon in the Pechora River.

Environmental NGO's are taking a more active part in the political process at the local and regional levels and are enjoying increasing access to and assistance from U.S. and international NGO groups. The Russians have continued

regional and international cooperation on environmental issues.

The Russian Government successfully negotiated an environmental loan of \$110 million from the World Bank in fall 1994.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Russia does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism. The U.S. began conducting regular counter-terrorism consultations with Russia in June 1994, and in late October of 1994 initiated dialogues on cooperation to counter nuclear terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. All of the non-Russian NIS have signed protocols with Russia under which Russia either will pay the debt in return for the assets or will take on management responsibility.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 25, 1994. Consistent with the terms of the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of commercial creditors, and hopes to have an agreement in place by the end of April 1995. In these negotiations, Russia has been seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed banks not insured by official guarantees, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs who may have been taken to the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs, which was established in March 1992. President Yeltsin and Gen. Volkogonov, head of the Russian delegation to the Commission, have pledged their full cooperation. Yeltsin has directed all relevant Russian ministries to cooperate fully with the Commission. Gen. Volkogonov is overseeing a thorough and professional research effort conducted by Russian archivists in search of information on missing American servicemen. He has also arranged for the U.S. side of the Commission to travel across Russia in order to interview Russian citizens and conduct research in regional archives. This level of U.S.-Russian cooperation on POWs/MIAs is unprecedented.

At the same time, lower-level Russian security officials have not always cooperated fully with Commission requests. The Russian Government should make it clear that it requires complete cooperation by all members of the government. Russia should provide the U.S. with all information in its archives on U.S. POWs/MIAs from the Korean and Vietnam Wars, and on U.S. servicemen shot down on or near Soviet territory during the Cold War.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

Russia removed the final portion of its infantry brigade from Cuba in June 1993. This signified the end of an era of military support from Moscow. Construction of a nuclear power plant at Juragua, begun in the early 1980s with Soviet assistance and suspended in September 1992, remained suspended through 1994. Russia continues to operate a signals intelligence/communications facility at Lourdes, for which it pays rent to the Government of Cuba.

In July 1993, Russia and Cuba signed a credits agreement to facilitate Cuban purchase of Russian equipment (primarily to complete projects related to the sugar industry). Under the terms of the agreement, Cuba would have to repay the credits with interest. Continuing preservation work by Russian technicians at Juragua has caused small amounts to be drawn on these credits.

We do not have evidence that Russia is providing trade subsidies or other assistance to Cuba. On April 1, 1994, the State Department (in response to a Congressional requirement levied after the announcement of the July 1993 Russian-Cuban credit arrangement) certified that the Russians did not give any aid (defined as assistance or trade on terms more favorable than market) to Cuba during

the preceding eighteen months. We have seen no information since April that would alter this determination. Russia-Cuba trade under the December 1993 bilateral trade agreement (which was ratified in March 1994) continues to reflect market prices. In fact, there are indications that the modest targets of this agreement (essentially an oil for sugar barter arrangement pegged to market prices for both commodities) may remain unfulfilled, as Cuba is reportedly experiencing difficulties in meeting its sugar export target.

Checklist for Grounds of Ineligibility
Under Section 498A(b) of the FREEDOM Support Act

Section 498A(b)(1): Has the President determined that the Government of Russia has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. Although the protection of human rights remains unevenly implemented in some areas (as discussed above), we do not believe that the Government of Russia is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Russia "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. The Government of Russia has taken many constructive steps in this area (as discussed above).

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Russia "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

We periodically receive reports of weapons-of-mass-destruction proliferation-related transfers which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports has resulted in a sanctions determination during the reporting period.

Since signing the U.S./Russian missile nonproliferation memorandum of understanding (MOU) in September 1993, the U.S. and Russia have frequently exchanged views and taken steps to implement the agreement. The MOU provides for each side to discuss export activities with each other that could require further consultation. This consultative

process is working well. The Russian side has been forthcoming in responding to our inquiries about activities predating the MOU. Russia has amended its export control regulations to permit it to control MTCR Annex items. Russia demonstrates a good understanding of the Regime and its objectives. At the October Plenary, the members agreed that Russian membership could make an important contribution to the Regime and agreed to take a formal decision on Russian membership in the near future. The U.S. remains committed to facilitating Russian MTCR membership at the earliest possible date. The signing of the MOU and a related Russian commitment to appropriately modify the Glavkosmos contract with the Indian Space Research Organization have enabled Russia to continue its eligibility for assistance under this section. Additional details have been provided to Congress previously on a classified basis.

Section 498A(b)(4): Is the Government of Russia "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Russia is not prohibited from receiving assistance under these sections.

Section 498A(b)(5): Has the Government of Russia "failed to make significant progress on the removal of Russian or Commonwealth of Independent States troops from Estonia, Latvia, and Lithuania" or "failed to undertake good faith efforts, such as negotiations, to end other military practices that violate the sovereignty of the Baltic states"?

No. The process of Russian troop withdrawal from Lithuania was completed in 1993. In 1994, Russia completed bilateral negotiations with Latvia and Estonia to reach agreements on timetables for removal of the last Russian forces in these countries. Except for a small number of Russian technicians who remained behind under these agreements (and who will be withdrawn soon), all Russian active duty troops departed Latvia and Estonia by August 31, 1994.

TAJIKISTAN

Criteria for U.S. Assistance

Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

The Government of Tajikistan made limited progress

toward democratization in 1994. It is dominated by a coalition representing the regional political interests of Kulyab, Leninabad and Hissar. Most opposition political activity is banned and many government opponents are either jailed, in exile, or active in the armed opposition based in Northern Afghanistan and conducting a low-intensity guerrilla war against the current government. President Rakhmonov, who served as Chairman of the Supreme Soviet and Head of State since November 1992, was elected in a November 6, 1994 vote in which a new constitution was also approved. Although restrictive nomination procedures limited the presidential campaign to two candidates--Rakhmonov and former Prime Minister Abdullahjanov--the race was competitive. In the end, Rakhmonov won with 58 percent of the vote in a process marked by incidents of voter intimidation and credible allegations of vote-rigging. Parliamentary elections are tentatively slated for February 26, 1995. Freedom of expression, including freedom of the press, is severely restricted. Several journalists were assassinated in 1994; others were arrested, jailed, or forced into exile.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The civil war has severely damaged the economic infrastructure, and industrial and agricultural production has fallen sharply. While the government has made some steps towards reform, these have been to a large extent legislative exercises, with no implementation or enforcement. A governmental preoccupation with political stability combined with the entrenched bureaucratic opposition to reform made the economy, however dire the situation, a lesser priority. In addition, no resolution could be reached on the fundamental question of a separate Tajik currency until the political equation stabilized. Approximately 90 percent of the economy is still in government hands and that which has been privatized has gone into the hands of the work collective at that particular enterprise. The government further restricted the market in Tajikistan by increasing state orders for cotton and aluminum and limiting the issuance of export licenses.

There are signs that, following the presidential election in November, the government finally turned its attention to economic reform. The new Prime Minister, trained as an economist, appears to champion economic reforms and introduction of a national currency is being seriously discussed.

Tajikistan is a member of the IMF, the IBRD and the EBRD. A bilateral trade agreement was signed and ratified in 1993. MFN status was granted in November 1993. An OPIC agreement entered into force in 1992.

Section 498A(a)(3): "respect internationally recognized

human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Three successive governments in Tajikistan have had poor human rights records. Opposition and government figures have been the victims of threats, kidnappings, torture and assassination. The current government has shown some sensitivity to international concerns of human rights violations, but extrajudicial and political killings continue and little has been done to restrain the activities of pro-government thugs who have harassed, beaten, and even killed perceived opponents of the government. The government prosecuted no one for political or extrajudicial killings in 1994, and the procurator's office closed all cases in which alleged murderers were from the same region as the ruling Kulyabis.

The Government has made good faith efforts to assist in the repatriation of refugees from Afghanistan. Retribution against returnees by local militias remained a frequent if diminishing problem. Persons from Kulyab continue to be favored over those from other ethnic groups and harassment of those from the opposition-stronghold areas of Gharm and Pamir continues. Linguistic and employment discrimination against the Russian minority has led to significant out-migration of this group in recent years, though this trend slowed somewhat in 1994.

According to the Constitution, church and state are separate in Tajikistan. Religious freedom is guaranteed by law. While Islam is the majority religion, minority religions enjoy both government and individual tolerance. We have received no reports of official discrimination against religious minorities.

Nationals who wish to travel abroad must obtain an exit visa, but there is no evidence that these are being withheld for political reasons. Tajikistan has no law on emigration. Persons who settle abroad who do not intend to return are required to inform the Tajikistan Interest Section of the nearest Russian Embassy or Consulate.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The current Government of Tajikistan has made a public commitment to respect the observance of international legal obligations and CSCE commitments. It has cooperated with the CSCE mission based in Dushanbe on matters related to election law and efforts toward a political settlement. Tajikistan has outstanding border disputes with Uzbekistan and China, but neither has erupted into armed conflict. Given the current state of civil disorder and its nascent military, Tajikistan has no significant capacity and no apparent intent to pursue aggressive actions against any of its neighbors. Tajikistan has been an active participant in regional dialogues and cooperative peacemaking efforts.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The current Government of Tajikistan supports regional and international efforts, including an ongoing UN mission and a new CSCE mission, to peacefully resolve its internal conflict. Civil strife in Tajikistan has not been characterized by ethnic rivalries. Rather, it is a clan-based struggle between Islamic and secular Tajik groups, with regional overtones.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;

(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;

(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and

(D) restraining conventional weapons transfers."

Tajikistan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. The government has indicated it intends to join the NPT as a non-nuclear weapons state. Tajikistan's military forces do not represent an offensive threat. We do not believe that Tajikistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Tajikistan is a signatory to the multilateral Chemical Weapons Convention. To our knowledge, Tajikistan has not knowingly engaged in any significant level of conventional arms transfers. The border with Afghanistan has become rather porous and, as a result of Tajikistan's internal conflict, arms transfers may have occurred, but most likely into, not out of, Tajikistan.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Tajikistan's efforts to protect its environment are currently overshadowed by its political problems. The U.S. Geological Survey has cooperated with Tajikistan in the past on a program of earthquake monitoring. The Minister of Environment has expressed interest in the Aral Sea program.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Tajikistan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Tajikistan signed both the October and December 1991 agreements. The December 1991 agreement provided that Tajikistan's share of the FSU debt would be 0.82 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In October 1993, Tajikistan signed a "zero option" agreement with Russia under which Russia will pay Tajikistan's share of the debt, in return for its share of the assets.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 15, 1994. Consistent with the terms of the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Commission has not initiated direct negotiations with Tajikistan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Tajikistan is not providing military,

economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Grounds of Ineligibility
Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Tajikistan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While there have been serious shortcomings in human rights observance (as discussed above), we do not believe that the Government of Tajikistan is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Tajikistan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Tajikistan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Tajikistan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Tajikistan has made such transfers.

Section 498A(b)(4): Is the Government of Tajikistan "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Tajikistan is not prohibited from receiving assistance under these statutes.

TURKMENISTAN

Criteria for U.S. Assistance
Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

There was no progress in 1994 in moving toward a democratic system of government. Turkmenistan remains a one-party state dominated by President Niyazov and his closest advisors. The President has continually emphasized stability over political reform. A January 25, 1994 referendum of questionable constitutionality extended President Niyazov's term of office until 2002. The December 11 elections for the Mejlis (parliament) were largely a formality as opposition parties are banned; only government-approved candidates were permitted to run for this largely rubber-stamp body.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The Government of Turkmenistan is taking a slow approach to economic reform. President Niyazov plans a ten-year state-managed transition and hopes to utilize hard currency earnings from Turkmenistan's natural resources to finance expenditures and soften the impact of the economic transition. The Government took some limited measures in 1994 to reduce state intervention, e.g. phasing out the state order system, but the economy remained predominantly under state control. Turkmenistan could accelerate the pace of reform by broadening privatization efforts and relaxing restrictions in the areas of oil, gas, minerals and most agriculture, which have been reserved for state ownership and control.

A series of laws on foreign investment, banking, property ownership and intellectual property rights were passed in 1992 as incentives for foreign investors. However, the export system is complicated by licensing and currency surrender requirements. In September 1992, President Niyazov signed a law which protects intellectual property rights. Turkmenistan introduced its own currency, the "manat" in November 1993, which has helped it establish an independent monetary policy. A bilateral trade agreement providing for reciprocal MFN and containing IPR (intellectual property rights) provisions entered into force October 1993. The OPIC agreement entered into force in June 1992. Further discussions are needed on the bilateral investment treaty and treaty to avoid double taxation before finalization. Turkmenistan is a member of the IMF, EBRD and IBRD.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The Government of Turkmenistan's record on recognition of internationally recognized human rights is poor. It largely avoided abuses against the integrity of the person (extrajudicial killing, systematic torture). However, criminal suspects, prisoners, and witnesses are routinely beaten both before and after trial processes. Agents of the security apparatus have also used force to suppress political opposition. Furthermore, the government severely restricts civil and political rights. It maintains strict controls over the political opposition and completely controls the media, censoring all newspapers and rarely permitting criticism of government policy or officials. The Government has detained its critics and attempted to extradite Turkmen dissidents from Uzbekistan and Russia on charges that appear politically-motivated. As part of its efforts to foster a sense of nationhood among the Turkmen, the Government has reversed decades of favoritism toward Russians. Ethnic Turkmen now receive favored treatment, leading ethnic minorities to complain of discrimination, especially in employment practices.

The Constitution guarantees freedom of religion and does not establish a state religion. State harassment of religious groups has largely ended, and religious freedom is generally respected. Religious congregations are technically required to register with the government, but there are no reports that the government prevented those that have not complied from practicing their faith. There were no reports that attempts to register religious groups were denied.

The government does not generally restrict movement within Turkmenistan, although travel to border zones is tightly controlled. The Government uses its power to issue passports and exit visas as a means of restricting international travel for its critics. Travel outside the former Soviet Union requires an exit visa. Citizens of Turkmenistan are permitted to emigrate without undue restriction.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Turkmenistan claims to respect the observance of international legal obligations and CSCE commitments in the area of human rights, but has yet to put those obligations and commitments into practice. House arrests, limitations on freedom of expression, harassment of political opposition, and prevention of contacts with visiting foreigners occur in clear violation of the Helsinki Final Act and the Charter of Paris.

Turkmenistan is at peace with its neighbors. Bilateral accords with Russia provides for close cooperation on military and security issues. The Turkmen military does not currently present an offensive threat to the region. Turkmenistan has been active in regional dialogues and cooperative efforts to settle outstanding disputes

peacefully. Turkmenistan has been complying with CSBM (Confidence and Security Building Measures) provisions by submitting CSBM declarations and undergoing an inspection in November.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Turkmenistan supports regional and international efforts to resolve peacefully the conflicts in Tajikistan and Afghanistan. It does not participate, however, in the CIS peacekeeping efforts in Tajikistan. Turkmenistan has been spared the ethnic turmoil that has afflicted other parts of the former Soviet Union.

Section 498A(a)(6): "implement responsible security policies, including--

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
- (D) restraining conventional weapons transfers."

Turkmenistan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. In September, Turkmenistan deposited instruments of accession to the Non-Proliferation Treaty in Washington. Under its bilateral security arrangement with Russia, Turkmenistan hopes eventually to disband much of the existing Turkmen military. We do not believe that Turkmenistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technologies. Turkmenistan is a signatory to the multilateral Chemical Weapons Convention. To our knowledge, Turkmenistan has not engaged in any significant level of conventional arms transfers.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

While Turkmenistan has the best developed system of nature preserves of all the Central Asian republics, there have been signs of encroachment on some of these areas. Turkmenistan and the U.S. Fish and Wildlife Service are undertaking a joint project for the protection of arid resource bases. At the same time, Turkmenistan harbors one of the most serious environmental problems in the Central Asian region, the Karakum canal. Continued development of the canal will exacerbate existing water pollution, pesticide run-off, and water-table problems in the region, contributing to the problems in the Aral Sea. Turkmenistan has, however, agreed to participate in U.S. and World Bank projects to address Aral Sea-related problems.

Turkmenistan is currently engaged in talks with Russia, Azerbaijan, Kazakhstan and Iran on environmental protection of the Caspian Sea. These marine environmental protection talks will include discussion of development of the mineral resources of the Caspian seabed and use of the sturgeon population in a way that protects the Caspian ecosystem.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Turkmenistan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Turkmenistan signed the October but not the December 1991 agreements. The December 1991 agreement provided that Turkmenistan's share of the FSU debt would be 0.70 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In July 1992, Turkmenistan signed a "zero option" agreement with Russia under which Russia will pay Turkmenistan's share of the debt in return for its share of the assets.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 15, 1994. Pursuant both to the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Commission has not initiated direct contact with the Government of Turkmenistan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

We have no evidence to indicate that the Government of Turkmenistan is providing military, economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Grounds of Ineligibility
Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Turkmenistan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. Nonetheless, the U.S. Government is deeply concerned about the serious violations of human rights discussed above and will continue to make human rights issues a central element of our dialogue with the Government of Turkmenistan.

Section 498A(b)(2): Has the President determined that the Government of Turkmenistan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Turkmenistan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Turkmenistan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of

Turkmenistan has made such transfers.

Section 498A(b)(4): Is the Government of Turkmenistan "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Turkmenistan is not prohibited from receiving assistance under these statutes.

UKRAINE

Criteria for U.S. Assistance

Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Ukraine declared its independence from the former Soviet Union in August 1991. The following December the Ukrainian people overwhelmingly confirmed that declaration through a free and fair referendum and elected Leonid Kravchuk President of Ukraine for a five-year term.

Since 1991 Ukraine has made slow, but steady progress in building a democratic society. Political freedoms introduced competing interest groups to the Ukrainian political scene which, against the backdrop of a growing economic crisis, brought on political deadlocks between the president and the parliament. On September 24, 1993, the Ukrainian parliament voted to hold early parliamentary elections on March 27, 1994, and early presidential elections on June 26, 1994. The early elections were carried out in a generally free and fair manner, and under international observation. Voters, influenced by new democratic practices and political groups, elected a new parliament dominated by leftist factions which emerged from the elections as the strongest blocs. Repeat elections during the summer and fall however, put more centrists in the legislature and weakened the left, and now new deputies entering parliamentary ranks without party affiliation made up the largest single grouping. Voters also elected former Prime Minister Leonid Kuchma to the Presidency in a run-off election against incumbent Leonid Kravchuk.

Although Ukraine's government is a parliamentary democracy with separate executive, judicial, and legislative branches, it lacks strong democratic institutions and a rule of law tradition. Since 1991, democratic reforms have included protection of many individual freedoms, adoption of a multiparty system, and legislative guarantees of basic civil and political rights for ethnic minorities. A new Ukrainian

draft constitution to replace the Soviet-era constitution, a high priority for President Kuchma, is now being drafted by a commission.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

For the past three years Ukraine has faced serious inflation and a declining economy. The decline of production in most sectors of the economy continues, though the rate of contraction appears to have slowed in some spheres. In 1992 and 1993 market-oriented reforms were implemented at a slow and half-hearted pace. Ukrainian officials appeared determined to move towards an efficient economy without creating social upheaval and a decline in the standard of living, even if it included a reliance on administrative planning. Unfortunately, this policy led to a decrease in industrial production, spiraling inflation, little privatization, and overall gridlock in the economy. In 1993, attempts at stabilizing the economy were overwhelmed by the weight of collapsing production, ruptured trade links within the former Soviet Union, and the lack of political will at all levels of the national government.

In 1994 the economic situation in Ukraine remained grim, but the policy outlook brightened considerably. Country-wide elections for a new president, Parliament and every governor and mayor in the nation provided new thinking and fresh ideas. Ukraine has unambiguously signaled its determination to embark on a comprehensive economic reform program. President Kuchma's October 11, 1994 address to the Ukrainian Parliament has registered a drastic change in economic policy, in favor of stabilization and structural reform. Ukraine has committed itself to unifying its exchange rates, reforming the tax and banking systems, liberalizing prices, reducing inflation, eliminating subsidies, lifting export and currency controls, attracting more foreign investment, speeding up privatization efforts, and cutting the budget deficit. On October 26, 1994, the International Monetary Fund announced the approval of a Systemic Transformation Facility loan of 371 million USD in order to help implement the first stage of this radical economic stabilization and reform program. On December 22, 1994 the World Bank approved a 500 million USD rehabilitation loan, tying disbursement to the adoption of substantial structural reform measures.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Ukraine continues to make progress in the area of human rights. Currently there are no political prisoners. A few reported abductions and killings have been investigated for possible political motivations. However, given the lack of sufficient evidence to establish such linkages, some believe

that more and more politically active individuals are falling prey to organized crime. Minority rights are generally respected in accordance with a November 1991 law which guarantees persons belonging to ethnic minority groups the right of access to schools and cultural facilities and the use of their respective languages in business and official correspondence. Despite frequent reports of discrimination against ethnic Russian minorities, there is little evidence that discriminatory incidents against Russians or any other ethnic minorities are anything more than isolated events. Most Ukrainians who wish to travel abroad are able to register without problems at local "Visas and Registration Offices". In 1993, Ukraine dropped its requirement for exit visas and all citizens are eligible for passports that permit unrestricted travel abroad.

While there are some problem areas in Ukraine's human rights performance, government efforts to address these problems proceed. Scattered incidents of religiously motivated violence between various denominations have been reported. The government has sought to bring this violence under control and is working to resolve disputes. The government has not interfered with the registration of minority religions and has allowed the opening of seminaries and Jewish religious schools. Although freedom of speech and of press is hampered by Soviet-era self-censorship practices and a state monopoly on most newsprint, a 1991 law protects these freedoms and criticism of the government is vigorous and tolerated. There continues to be inadequate legal protection against searches of homes without warrants and surveillance of individuals and communications. However, human rights observers report receiving no complaints of invasion of privacy.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

Ukraine has adhered to obligations under the Helsinki Final Act and the Charter of Paris, and respected international law. Ukraine has consistently sought peaceful negotiated settlements to disputes on its border, including that in Moldova, and has made no territorial claims on other states. In addition, Ukraine has sought and continues to seek the advice and counsel of the CSCE in resolving peacefully the internal dispute with Crimea.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Although no longer a high priority issue, Ukraine has supported peaceful resolution of its dispute with Moldova by participating in quadripartite talks and by attempting to interdict arms shipments into the disputed zone. A battalion of Ukrainian peacekeeping forces is currently serving with the UNPROFOR mission in Bosnia and has suffered many casualties in performance of its duties. Within its own borders, Ukraine has supported peaceful resolution of

its dispute with Crimea by inviting and encouraging the active participation of the CSCE in evaluating the situation and making recommendations. Ukraine also has made clear efforts to guarantee rights of persons belonging to minorities and has been virtually free of widespread ethnic conflict.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;

(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;

(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and

(D) restraining conventional weapons transfers."

Following elections which brought in both a new Parliament (the Rada) and a new President, the Rada voted on November 16, 1994 to accede to the NPT. Ukraine deposited its instrument of accession for the NPT and exchanged instruments of ratification for the START Treaty on December 5, 1994.

Ukraine participated in meetings to resolve INF and ABM Treaty succession and implementation issues.

Ukrainian leaders continue to stress their determination to achieve full implementation of the CFE Treaty and have put in place an infrastructure to make that a reality. Kiev has met its CFE data and notification requirements in a timely fashion. Ukraine has hosted a large number of on-site inspections of its forces, and has been a cooperative partner in CFE implementation. Ukraine completed destruction of hundreds of pieces of Treaty-limited equipment in fulfillment of its equipment reduction obligations for CFE's first reduction phase, which ended in November 1993. It appears that Ukraine has failed to destroy 60 percent of its total reduction liability by November 1994, with the shortfall coming from not destroying naval-related equipment included in the politically-binding June 14, 1991 statement. President Kuchma and other senior Ukrainian officials have repeatedly expressed their commitment to adhere to arms control agreements and comply with their provisions. On this basis, we judge that the GOU is committed to complying with relevant arms control agreements. Where this commitment has not been fully implemented, e.g., CFE reductions, it remains under our constant review.

Ukraine inherited a military force of some 550,000 personnel from the Soviet Union when it declared independence. Current plans are for Ukraine to reduce the size of this force to approximately 250,000 - 300,000 by the end of the decade. This level is consistent with legitimate defense requirements.

Ukraine has cooperated with efforts to limit proliferation of weapons and technologies of mass destruction. The USG

has held discussions with Ukraine in an effort to establish strong export control systems with Ukraine. Now that Ukraine has acceded to the NPT, it is working with the IAEA full-scope safeguards agreement. We do not believe that Ukraine has engaged in the proliferation of nuclear, biological, or chemical weapons, or related technology during the reporting period. Ukraine is an original signatory to the chemical weapons convention. With respect to missile delivery systems, on May 31, 1994, Vice President Gore and Deputy Prime Minister Shmarov signed an agreement on the transfer of missile equipment and technology that made Ukraine an adherent to the Missile Technology Control Regime (MTCR). The agreement entered into force in November 1994.

While Ukraine does produce some conventional armaments, it has not been a significant exporter of conventional arms.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Significant environmental problems remain in Ukraine, particularly from the after effects of Chornobyl and widespread industrial pollution. The U.S. and Ukraine are cooperating on a range of environmental problems under a bilateral cooperation agreement signed in 1992.

The Government of Ukraine has taken some steps to address environmental issues, mainly through the Ministry of Environment. Given the worsening economic situation in Ukraine, however, full implementation of a pollution fee system taxing air and water emissions and solid waste disposal has lagged. National environmental NGO's and a national Green Party slowly are gaining access to the policy-making process on environmental issues. Ukraine has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Ukraine does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the

external assets and foreign debt of the former Soviet Union. Ukraine signed both the October and December 1991 agreements. The December 1991 agreement provided that Ukraine's share of the FSU debt would be 16.37 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In March 1993, the chairman of the group of official creditors of the former Soviet Union wrote to the Ukrainian prime minister stating that the official creditors would not seek any payments from Ukraine arising from the FSU debt until Ukraine and Russia reached bilateral agreement on this issue. In December 1994, Ukraine signed a "zero option" agreement with Russia under which Russia will pay Ukraine's share of the debt in return for its share of the assets.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on October 25, 1994. Pursuant to the June agreement, Russia is now seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The U.S. delegation to the POW/MIA Commission visited Ukraine in December 1992 and August 1993. Ukraine continues to cooperate in the search for evidence on American POWs/MIAs.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Ukraine is not providing military, economic, nuclear, or other assistance to the Government of Cuba. Ukraine sought in 1994 to improve its trade relations with Cuba.

Checklist for Grounds of Ineligibility
Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Ukraine has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While problems remain in the observance of certain freedoms (as discussed above), we do not believe that the Government of Ukraine is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Ukraine "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. The Ukrainian parliament has lifted its conditions on the implementation of the START I Treaty and has voted to accede to the NPT. On January 14, 1994 Ukrainian President Kravchuk signed a trilateral statement with Russia and the United States which has facilitated the early deactivation and transfer of nuclear warheads to Russia for dismantlement.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Ukraine "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We have no evidence to suggest that the Government of Ukraine has made such transfers.

Section 498A(b)(4): Is the Government of Ukraine "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Ukraine is not prohibited from receiving assistance under these statutes.

UZBEKISTAN

Criteria for U.S. Assistance
Under Section 498A(a) of the Foreign Assistance Act of 1961

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the

President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Uzbekistan has made some marginal progress in its transition from an authoritarian Soviet legacy toward a more pluralistic democracy. Political life remains dominated by President Islam Karimov and the highly centralized executive branch which serves him. The December 25 Parliament elections offered voters a limited choice between candidates from the ruling party, from another party closely linked to Karimov, and from the regional governments. However, Tashkent's tight control of the registration and nomination process effectively eliminated real opposition candidates.

On the positive side, two opposition representatives were permitted to address a CSCE seminar which took place in Tashkent in September 1994, and the government did not seriously harass local or foreign activists during the seminar. In November 1994, the government pardoned five prominent political dissidents who had been in prison. A trial of some remaining opposition party members, jailed for a range of offenses considered suspect by human rights groups, began in October but was postponed.

Although expressly prohibited by the Constitution, press censorship continued, and freedom of expression was constrained by an atmosphere of repression which made it difficult to criticize the government publicly.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

In 1994 the Government took its first significant steps to accelerate the process of economic reform and the transition to a free market economy. By year's end, Uzbekistan had reached agreement with the IMF on a program to be supported by the Systemic Transformation Facility, although official Board approval will likely be granted in early 1995. As part of this agreement, the Government of Uzbekistan has agreed on exchange rate unification, a consolidated 1995 budget requiring no more than 2 percent of GDP domestic financing, and interest liberalization. As a "prior action" required before Board approval can be granted, Uzbekistan, in December 1994, reduced export quotas. By early February 1995, it is expected to have agreement with the World Bank on a substantial reduction in state orders for grain. (The state order system has already been abolished for all other agricultural products, with the exception of cotton.) It has also agreed in principle to a privatization program assisted by the World Bank.

As of late 1994, most state-owned apartments and many small enterprises had been privatized, but the majority of large-scale enterprises remained in state hands. Government subsidies on most basic consumer goods were eliminated or sharply reduced, but remain significant on bread, flour, cotton and some energy products. Uzbekistan left the ruble zone in November 1993 and introduced a transitional currency, the som, in July 1994. Inflation, which had been about 20 percent per month in early 1994, was reduced to about 5 percent per month in the July-October period. The budget deficit has been sharply reduced from about 16 percent of GDP to about 3 percent in the first nine months of 1994.

Foreign investment and joint ventures are officially welcome but the investment climate is complicated by the slow pace of privatization, undefined laws on property ownership and foreign investment, and general economic uncertainty. The government maintains tight controls on international trade which is strictly regulated through import and export licensing and currency controls. The government is currently studying legislation on the protection of intellectual property rights. Uzbekistan is a member of the IMF, IBRD and EBRD and we have encouraged it to work actively with these institutions on a comprehensive economic reform program.

An OPIC agreement entered into force in October 1992 and a trade agreement which includes intellectual property right provisions entered into force in January 1994. We are encouraging Uzbekistan to move forward on negotiations for a bilateral investment treaty. Negotiation of a double taxation treaty will require major legislative changes in Uzbekistan, but preliminary discussions were begun in February 1993.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The 1992 law on citizenship and the Constitution prohibit discrimination on the basis of sex, religion, language, or social status, and officially sanctioned discrimination does not occur. The Constitution provides for free movement within the country and across its borders. However, foreign travel is still restricted by difficulties in obtaining an overseas passport and by a law that requires all citizens to have an exit visa. Local authorities sometimes withhold passports for political and administrative reasons to prevent persons from making short-term trips abroad, including some individuals selected to participate in official exchange programs. Others allegedly received their passports or exit visas only after paying bribes. Government authorities frequently withhold exit visas when they do not approve of the travel goals. Those who leave without an exit visa may be subject to severe penalties upon return.

Most barriers to emigration were lifted before the Soviet breakup. Although in some instances emigrants are delayed

by long waits for passports and exit visas, potential emigrants who can find a host country willing to accept them are able to leave the country. Since independence, a significant number of non-Uzbeks, including Russians, Jews, Ukrainians and others have emigrated from the country, although no exact figures are available. These people have not left because of any systematic human rights abuses but rather because of what they fear will be limited future economic and social prospects for non-Uzbeks. This emigration appeared to slow somewhat in 1993, compared to 1992, but picked up again in 1994.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

Uzbekistan joined the CSCE in January 1992. At the request of the Tajikistan Government, Uzbek troops are part of the CIS peacekeeping force in Tajikistan. The GOU's record of restricting contact with foreign visitors, suppressing free speech by the opposition and imposing travel restrictions on both nationals and foreign visitors violates commitments of the Helsinki Final Act and the Charter of Paris made by the GOU upon joining the CSCE.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Uzbekistan supports regional and international efforts to resolve the conflict in neighboring Tajikistan. President Karimov has urged further involvement by the United Nations under the "Agenda for Peace" and proposed the establishment of a special advisory group to forecast and rapidly prepare recommendations for peacemaking for the Security Council. In addition to participating in a peacekeeping force, Uzbekistan is providing humanitarian aid to internally displaced persons in Tajikistan and is allowing international organizations to stage their support from cities in Uzbekistan. Uzbekistan is committed to establishing a multi-ethnic national identity and is sensitive to the concerns of ethnic Russian and Tajik communities in Uzbekistan. However, while there is no officially sanctioned discrimination, some non-Uzbeks report that they are discriminated against.

Section 498A(a)(6): "implement responsible security policies, including--

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
- (D) restraining conventional weapons transfers."

Uzbekistan supports international efforts to eliminate

nuclear, chemical and biological weapons and has reiterated its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. It joined the NPT in 1992 as a non-nuclear weapon state. Control of all military, paramilitary and security force units has been transferred to the Government of Uzbekistan. Uzbekistan announced its intention to organize a new Uzbek National Army which will consist of 35,000 soldiers. This level is consistent with legitimate defense requirements. We do not believe that Uzbekistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Uzbekistan has not yet signed the multilateral Chemical Weapons Convention. To our knowledge, Uzbekistan has not engaged in any significant level of conventional arms transfers.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Uzbekistan is committed to working with the United States and the international community on environmental issues, has participated in conferences on regional environmental problems, and has recently proposed the creation of a Central Asia interstate organization to resolve the problems of the Aral Sea. Uzbekistan has taken some steps to establish public policy mechanisms to address environmental issues and has created the "Fund for Ecology and Health of Uzbekistan," which is designed to increase the public consciousness and understanding of the environmental problems. It has established ministries of energy and electricity and minerals and water resources. Several state committees have been established to deal with specific environmental and ecological issues. Uzbekistan suffers severe environmental problems as a result of the cotton monoculture, which has caused severe agrichemical pollution, and is actively seeking international assistance to deal with these issues.

Section 498A(a)(8): "deny support for acts of international terrorism."

Uzbekistan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Uzbekistan did not sign either the October or the December

1991 agreements. The December 1991 agreement provided that Uzbekistan's share of the FSU debt would be 3.27 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In July 1992, Uzbekistan signed a "zero option" agreement with Russia under which Russia will pay Uzbekistan's share of the debt, as defined by the December 1991 agreement, in return for its share of the assets.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993. On June 4, 1994 Russia and the official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 25, 1994. Consistent with the terms of the April 1993 and June 1994 agreements, Russia has been engaged in negotiations with the "London Club" of unofficial creditors. In these negotiations, Russia has been seeking to restructure, on terms comparable to those agreed to by the official creditors, amounts owed private creditors, including banks and uninsured suppliers, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The Government of Uzbekistan has been cooperative with all related interviews conducted in Uzbekistan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Uzbekistan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

Checklist for Grounds of Ineligibility

Under Section 498A(b) of the Foreign Assistance Act of 1961

Section 498A(b)(1): Has the President determined that the Government of Uzbekistan has "engaged in a consistent

pattern of gross violations of internationally recognized human rights or of international law"?

No. While such a pattern has not been determined, the USG is deeply concerned about the violations of human rights discussed above, and will continue to monitor Government of Uzbekistan's human rights performance closely.

Section 498A(b)(2): Has the President determined that the Government of Uzbekistan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Uzbekistan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Uzbekistan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Uzbekistan has made such transfers.

Section 498A(b)(4): Is the Government of Uzbekistan "prohibited from receiving such assistance by section 669 or 670 of [the Foreign Assistance] Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Uzbekistan is not prohibited from receiving assistance under these statutes.

XI. EVALUATION OF USE OF NOTWITHSTANDING AUTHORITY

During CY 1994 the NIS Assistance program continued to benefit from use of the "notwithstanding authority" granted to the program by Congress. Flexibility to respond quickly to unforeseen assistance needs, and to provide non-traditional mechanisms such as the Enterprise Funds contributes to the effectiveness of the assistance program. The signal of Congressional support represented by the granting of notwithstanding authority also benefits the NIS assistance effort even when it is not necessary to actually invoke the authority, as it encourages new and less bureaucratic approaches. For example, USAID has abbreviated and expedited procedures for NIS project design and approval, a process which can take 18 to 24 months otherwise.

Specific examples in which "notwithstanding authority" was used during CY 1994 are set forth below.

Officer Resettlement Program

The Officer Resettlement Program consists of an initial pilot program to provide 450 housing units for Russian troops demobilized and withdrawn from the Baltics and elsewhere; and a follow-on program to provide an additional 5,000 units. These programs were announced by Presidents Clinton and Yeltsin at the Vancouver Summit in March 1993 (pilot) and by President Clinton at the Tokyo G-7 meeting in August 1993 (follow-on). These projects form a critical part of U.S. foreign policy in support of the withdrawal of Russian troops from the Baltics. The favorable outcome of negotiations between the Government of Russia and the Baltic governments on troop withdrawal was heavily influenced by the existence of the USAID program for providing housing units for retiring Russian officers. For both the pilot and the follow-on, USAID entered into contracts for technical assistance, construction, and management of a voucher system to enable beneficiaries to purchase units through the housing market. Accelerated procurement processes were required to begin both the pilot and follow-on contracts to meet very ambitious completion targets. "Notwithstanding" authority was invoked as described in the first three items below to permit this.

1.	Date	Activity
Amount		
	January 26, 1994	Follow-on Russian Officer Housing
\$1.2 million		Construction -- Evaluation of Proposals

Rationale: "Notwithstanding" authority was invoked to waive FAR and AIDAR provisions related to full and open competition to contract with Planning and Development Collaborative (PADCO) for an initial evaluation of design-build proposals for the construction component of the Russian Officer Resettlement Follow-on Project. Because of the accelerated time schedule, it was not possible to obtain the needed services on a timely basis through competitive procurement. The contractor chosen, PADCO, was already mobilized and deeply engaged in USAID's housing reform and Pilot Officer Resettlement projects in Russia. Concurrent with PADCO's work in narrowing the list of construction proposals, USAID undertook a full and open competition for management of the construction component of the project, which was won by Ralph M. Parsons Construction Co. and awarded in September, 1994. PADCO's initial work allowed Parsons to begin working immediately with a short list of construction firms. The first construction contracts were signed in early December 1994.

2.	Date	Activity
Amount		
	January 26, 1994	Pilot Russian Officer Housing
\$1.1 million		Voucher Program

Rationale: "Notwithstanding" authority was invoked to waive

FAR and AIDAR provisions related to full and open competition to contract with The Urban Institute for a 100 voucher pilot program under the Pilot Russian Officer Resettlement project. Competitive selection processes mandated by the FAR and AIDAR for subcontracts were also waived. It was not possible to undertake full and open competition and still meet the tight deadlines required under the Officer Resettlement Project. The voucher system needed to be designed immediately and implemented on a pilot basis. The Urban Institute had been working on the development of a voucher housing program in Russia for nearly two years and thus had acquired considerable expertise and knowledge relevant to this activity. The first vouchers were issued in May 1995.

3.	Date	Activity
Amount		
	June 24, 1994	Follow-on Russian Officer
Housing	\$15 million	
		Voucher Program

Rationale: FAR and AIDAR requirements related to full and open competition were waived to contract with The Urban Institute for initiation of the voucher component (involving the first 500 vouchers) for the 5,000 unit Russian Officer Resettlement Project. Competitive selection processes mandated by FAR and AIDAR for award of subcontracts were also waived. The timing of the availability of housing options for the officers became an important factor in the Russia-Baltic negotiations, and only the voucher component provided a sufficiently rapid response. In order to meet critical deadlines for the voucher distribution starting date, a noncompetitive award was made to The Urban Institute, an organization already on the ground in Russia and with experience in implementing a pilot voucher distribution activity in connection with the Resettlement Project.

An open competition for a contractor to manage the voucher component of the project was already underway at the time, but would not have met the urgent need for initiation of the voucher program. The open competition resulted in a competitive award to Abt Associates in August, 1994 to work on the remaining 2,000 vouchers.

4.	Date	Activity
Amount		
	February 28, 1994	Enterprise Fund Project
\$341 million		

Rationale: Because of the unique nature of this project and its special legislative mandate, the existence of special "notwithstanding" authority for enterprise funds made it possible for the program to proceed, notwithstanding rules applicable to USAID grant agreements. This involved both rules that apply by virtue of statute and those that apply by virtue of regulation or other administrative procedures that would normally be followed in the absence of the authority. The rules fall into the following four general categories:

A) Various Requirements for Grantees
B) Nature of Project Activities
C) Pre-Award Actions
D) Eligible Goods and Services and Source/Origin
Requirements

A) Various Requirements for Grantees:

Non-applicability of the requirement that interest earned on grant advances be remitted to USAID;

Non-applicability of any requirement relating to cost sharing and matching imposed on grantees;

Non-applicability of any requirement that grant advances only be made to the grantee on an as needed basis;

Modification of the requirement that advances grant funds by deposit in banks with FDIC coverage and the balance of the advances that exceeds the FDIC coverage by collateral secured to allow a more commercially sound alternative;

Non-applicability of all requirements prescribing how the grantees shall manage property acquired with USAID funds;

Non-applicability of the requirement that the grantee certify that it has not been debarred or suspended, and that its principals have not been convicted of certain crimes.

Non-applicability of the required undertaking by the grantee regarding the actions of its employees in the NIS.

Non-applicability of restrictions on conversions of dollars into any other currency.

Most of these requirements relate to the way in which a normal grantee can manage its grant funds. Since the FREEDOM Support Act and the SEED Act establish a different pattern for the Enterprise Funds (i.e. to receive moneys in advance of actual need and to earn interest thereon) most of these procedural requirements are per force inapplicable. The others are just not relevant to the investment orientation of the Enterprise Funds.

B) Nature of Project Activities:

Non-applicability of the restrictions on financing commercial or agricultural activities that compete with United States businesses, as specified in part in the Bumpers and Lautenberg amendments to the Appropriations Act for fiscal year 1993;

Non-applicability of 22 CFR 216: Environmental Procedures;

Non-applicability of any requirements applicable to participant training programs and research activities.

The FREEDOM Support Act and SEED Act provide specific objectives for the activities of the Enterprise Funds. The Funds are private entities, which require the flexibility to respond to market signals on a timely basis. Transactions are not expected to result in competition with U.S.

businesses in major U.S. or world markets. To the contrary, the result should be to open and sustain new markets for the United States. With respect to environmental procedures, the Funds have been granted a categorical exclusion and will develop their own rules and procedures for ensuring the environmental soundness of loans and investments. USAID will approve in writing these rules and procedures before the funds begin operations.

C) Pre-Award Actions:

Non-applicability of the requirement for a grant proposal and budget;

Non-applicability of the requirement for a pre-award audit;

Non-applicability of the determination that the funds have performance record, an acceptable financial accounting system and adequate funds to carry out the program;

Non-applicability of the review of the adequacy of grantee policy and procedures for travel, procurement and property management;

The Enterprise Funds are new organizations with no operational history to examine. The legislation directs USAID to make grants to these organizations. USAID will review and approve personnel rules and policies, including, those determining levels of compensation and benefits for employees of the Funds and any subsidiaries of the Funds.

D) Eligible Goods and Services and Source and Origin Requirements:

Non-applicability of standard restrictions on the acquisition of the following goods:

- (a) luxury goods
- (b) weather modification equipment
- (c) agricultural commodities
- (d) vehicles
- (e) rubber compounding chemicals and plasticizers
- (f) used equipment
- (g) U.S. government-owned excess property
- (h) fertilizers
- (i) any commodities appearing from time to time on the Commodity Eligibility list regarding ineligible goods;

Non-applicability of any requirement that United States maritime insurers be used by the Grantee;

Non-applicability of cost principles for nonprofit organizations;

Non-applicability of any restrictions regarding local cost financing;

Non-applicability of statutes and restrictions on the source or origin of goods and services or nationality of suppliers, except for the exclusion of Libya, Vietnam, North Korea, Iran, Cuba, Iraq, Syria, Serbia, Cambodia, Laos, China and Afghanistan as a permitted source or origin for goods and

services or nationality of suppliers including:

(a) the requirement for the procurement of goods from the United States, NIS countries, or from developing countries; and,

(b) restrictions on acquiring construction and other technical services from advanced developing countries;

Non-applicability of the requirement that at least 50% of USAID-financed goods be shipped on United States flag vessels;

Non-applicability of the preference for using United States flag air carriers;

Non-applicability of the requirement that motor vehicles be of U.S. source and origin.

In most cases, we do not expect the Enterprise Funds to finance transactions of the type normally prohibited, but we did not want to impose the administrative burden of having to ensure that a proscribed procurement would not happen. One of the beneficial by-products of the Enterprise Funds is the development of indigenous credit and venture analysts who will be scrutinizing proposals for Fund financing. The emphasis is on developing local firms' business and accounting skills, not just use of USG procurement policies.

5.	Date	Activity
Amount		
	July 25, 1994	World Bank Housing Sector
\$2 million		Loan Assistance

Rationale: USAID had an opportunity to accelerate approval and implementation of a \$400 million World Bank loan for Russia's housing sector. Because of the accelerated time schedule for the activities, it was not possible to obtain needed services on a timely basis through competitive procurement. "Notwithstanding" authority was invoked to waive FAR and AIDAR requirements related to full and open competition for up to \$2 million for services in support of the World Bank Housing Sector Loan. The World Bank housing loan for \$400 million for Russia was subsequently negotiated in December 1994, with Board approval anticipated in February 1995.

6.	Date	Activity
Amount		
	July 13, 1994	Contracting for management
\$39 million		of the NET Partnership program

Rationale: Requirements of the FAR and AIDAR were waived to permit accelerated contracting of the Partnership Component of the NIS Exchanges and Training (NET) Project. A limited competition was held among nine organizations which had expressed interest in previous USAID-issued Requests for Proposals or submitted unsolicited proposals related to training or partnership programs. The contract

was for a management entity to identify organizations and institutions for participation in the partnerships, as well as to manage the overall implementation of the Partnership Program. Use of notwithstanding authority enabled the Partnership Program to get underway in FY1994 in accordance with encouragement from the Gephardt-Gilman report to accelerate the implementation of training activities.

7.	Date	Activity
	Amount	
	August 31, 1994	NIS Omnibus Privatization
	\$48.8 million	
		Contracts

Rationale: Privatization in the NIS has proceeded much more rapidly than anticipated, and has been the driving force of market reform. In Russia, for example, by July 1, 1994 some 70% of the industrial sector and nearly all small businesses had been transferred into private hands. Contract services for a wide range of skills needed to support the privatization process have been provided since mid-1993 through a set of 12 contracts which were procured under full and open competition, in which a record number of interested organizations participated ("omnibus 1" contracts).

Given the rapid pace of the privatization process, demand for services was much higher than anticipated and the level of effort contracted under competitive processes was fully committed much sooner than expected. While a new full and open competitive process for a second set of contracts was begun in January 1994, it was necessary to extend the first set of contracts in order to assure that critical services could be continued during the new period of competition and negotiation. USAID determined that 8 of the 12 "omnibus 1" contracts involving the most critical services should be extended to assure that program momentum not be disrupted. Taking into account that these contracts had initially been competitively selected, and that a new opportunity for firms to participate in the program existed under the "omnibus 2" competition, USAID considered that non-competitive extension of the key contracts for a limited bridging period was appropriate and essential to the program. USAID therefore invoked the "notwithstanding" authority to waive FAR and AIDAR provisions related to full and open competition to increase the level of effort for these eight "omnibus 1" contracts.

8.	Date	Activity
	Amount	
	Throughout the year	Personal Services Contracts
	varies	

Rationale: The "notwithstanding" authority was exercised to waive legislation prohibiting federal agencies from employing individuals under personal services contracts (PSC) to work in Washington. Other USAID Bureaus employ larger field staffs, including larger numbers of field-based PCs, than the ENI Bureau has been able to employ. With substantial management responsibilities for the ENI program still in Washington, it has been necessary to employ Washington-based PSCs, especially technical specialists, to

ensure adequate management of the ENI assistance program.

XII. INTERNATIONAL FINANCIAL INSTITUTIONS AND INITIATIVES

In 1994, the Newly Independent States have continued to draw upon the support of the international financial institutions, which at the urging of the U.S. and its G-7 partners have responded innovatively to the special circumstances of transition economies. A number of countries were able to utilize the IMF's new Systemic Transformation Facility (STF), while progress in some allowed them to move on to borrow under the Fund's conventional stand-by arrangement. Both the World Bank and the EBRD were more active, particularly in their movement outside of Russia. Following its restructuring, the EBRD, in particular, had greater success in aiding private sector firms and financial institutions throughout the region.

The U.S. also worked with its G-7 allies and the multilateral lending organizations on coordinated initiatives. These include the \$3 billion Special Privatization and Restructuring Program for Russia, which was well underway by the end of the year; the EBRD's Small and Medium Enterprise Fund for Russia; and multilateral support for Ukraine's balance of payment requirements, as well as to help that country move toward closure of the Chernobyl reactors.

International Monetary Fund

Relations between the IMF and the twelve NIS have developed over the course of this year. After a period of economic review, during which technical assistance was provided, the Kyrgyz Republic, Kazakhstan, Moldova and Russia received their first IMF financial support in 1993. 1994 saw the beginning of a new wave of reform--as Armenia, Belarus, Georgia, Ukraine and Uzbekistan--initiated more aggressive policies, which led to IMF support for these countries; this wave is expected to crest in 1995. To sustain it, strong international support is needed.

In August 1992, the IMF approved a five-month, \$1 billion first credit drawing for Russia. In July 1993, Russia drew a \$1.5 billion tranche of a \$3 billion STF loan. With their program off-track in late 1993, Russia was unable to draw the second tranche of this loan until April 1994. At the end of 1994, Russia and the IMF were negotiating a standby arrangement which, with the IMF Board decision to increase countries' access to 100 percent of quota, could be as much as \$6 billion.

Finally, creation of a \$6 billion currency stabilization fund (CSF) remains on the table. The CSF is intended to promote confidence in Russian reforms, help stabilize the ruble and facilitate convertibility. The CSF will be tied to Russian compliance with the standby program and will only be introduced once stable fiscal and monetary policies are in place.

The IMF has rapidly responded to other countries of the former Soviet Union as they have to adopt reform policies.

In 1993, Kazakhstan, the Kyrgyz Republic and Moldova were the strongest reforms. These three countries received STF drawings in 1993, and all had received standby loans by January 1994. 1994 saw another wave of serious reform, as governmental commitments in Ukraine, Belarus, Georgia and Armenia to implement more ambitious programs were met by IMF STF programs. Uzbekistan is expected to receive a STF loan in early 1995. Turkmenistan, Tajikistan and Azerbaijan lag behind the other countries, and are at more preliminary stages of discussions with the IMF.

World Bank: International Bank for Reconstruction and Development (IBRD), International Development Association (IDA)

After accepting all the NIS as new member in 1992, the World Bank worked in 1993 to develop reform program action plans which outline price, trade, legal and financial reforms to promote investment, as well as sectoral reforms in areas such as agriculture, energy, housing and transportation.

The Bank has coordinated with other multilateral and bilateral donors and has chaired Consultative Group meetings to discuss financial and technical assistance needs. By end-1994, CGs had been held for all the NIS, excluding Russia, whose TA needs have been dealt with in other fora.

Despite active work to develop a loan pipeline for Russia, the Bank continues to face difficulty approving new loans, and subsequently, implementing and disbursing approved loans. For example, a \$200 million loan to newly privatized large enterprises -- part of the \$3 billion Special Privatization and Restructuring Program -- has been approved, but awaits implementation. In all, \$2.3 billion in loans have been approved in 13 projects. Twenty-nine projects totaling \$8 billion are currently under preparation. Unfortunately, the Bank has been able to disburse less than \$600 million, mainly under the first import rehabilitation loan.

The Bank has been active in other NIS countries. Besides the approved loans, which are listed in the following table, as of November 15, there were another 62 World Bank other projects totaling \$3.8 billion under preparation in the 11 non-Russian NIS:

COUNTRY (millions)	LOAN	AMOUNT
Armenia	Institution Building	\$ 12
	Earthquake Reconstruction	\$ 28
	Irrigation Rehabilitation	\$ 29
	Power Maintenance	\$ 9
Azerbaijan	Energy TA	\$ 13
Belarus 8	Institution Building	\$
	Institution Building	\$120
	Forestry Management	\$ 42
Georgia	Institution Building	\$ 7

	Municipal Infrastructure	\$ 13
Kazakhstan	Import Rehab	\$180
	Petroleum TA	\$ 16
	Urban Transport	\$ 40
Kyrgyz Republic	Import Rehab	\$ 60
	Private Sector Adjustment	\$ 60
	Telecommunications	\$ 18
	Social Safety Net	\$ 20
Moldova	Drought Recovery	\$ 26
	Import Rehabilitation	\$ 60
	Structural Adjustment	\$ 60
Ukraine	Institution Building	\$ 27
	Import Rehabilitation	\$500
Uzbekistan	Government Management TA	\$ 21

(Note: Tajikistan and Turkmenistan have not received loans from the IBRD.)

International Finance Corporation

The International Finance Corporation (IFC), the private-sector arm of the World Bank Group, continued to play a key role in the economic transformation of Russia and the other newly-independent states (NIS) in 1994. Belarus, Kazakhstan, the Kyrgyz Republic, Russia, Tajikistan, Ukraine and Uzbekistan are members of IFC.

IFC's mandate is to promote private sector development in its member countries. The Corporation makes debt and equity investments for its own account; mobilizes funds from other private and official sources; and provides services in the areas of capital markets development, corporate advisory work, and privatization. Since then, IFC has also begun developing a strong investment portfolio.

IFC - which collaborates closely with the rests of the World Bank Group and the European Bank for Reconstruction and Development in the NIS - shares fully in project risks with other foreign and local investors, as it never accepts government guarantees of repayment.

During calendar year 994, IFC approved new investments for its own accounting totaling \$133 million in ten projects in four NIS countries, Kazakhstan, Russia, Ukraine and Uzbekistan. The total cost of the projects is estimated at \$665 million, including money invested by U.S. and other multinational investors. The projects involved a range of sectors, including telecommunications, construction, finance and mining.

Examples of the IFC activities in the NIS during 1994 include:

Privatization: With United States, British and Canadian financial assistance, IFC privatization work has focused on helping governments of the former Soviet republics develop

model privatization systems that can be widely replicated. In its first project, IFC assisted in the design and implementation of a small-scale privatization program in Nizhny Novgorod, creating a model which has now been adopted for replication throughout Russia. Since then, approximately 80 percent of all small businesses available for privatization have been sold in Russia. In its second project, IFC designed and implemented a trucking demonopolization and privatization program, which has been used in two-thirds of provinces in Russia. In 1994, IFC work on pilot privatization continued with emphasis on the following areas:

The privatization of Russian medium-and large -scale enterprises using vouchers, with schemes successfully introduced in five regions and over 2,000 enterprises sold. by mid-1994, over 70 percent of medium and large scale enterprises had been sold in Russia.

The privatization of agricultural land and collective farms, with a model program designed in Nizhny Novgorod. In 1994, Prime Minister Chernomyrdin publicly endorsed IFC's program, and the Russian government passed a decree setting up the scheme as a model for Russia. Since then, an additional three regions have begun implementing the model, with IFC assistance. Currently, over 90 farms are participating in the program.

The privatization of small-scale enterprises in Ukraine and Belarus. IFC teams work in 13 cities in Ukraine and three cities in Belarus. While privatization has not yet taken hold nationally in Ukraine and Belarus, most IFC-assisted cities have privatized approximately fifty percent of their small-scale enterprises. Also, IFC is advising the Ukrainian and Belarusian governments on modifying privatization laws to create more favorable conditions for privatization nationally.

Capital Markets: In the capital markets area, IFC advised the Russia authorities on the establishment of a securities market at the central and regional levels. In Moscow, IFC has been working with the government to help identify and remedy principal weaknesses in the existing legal and regulatory framework. IFC's work has centered on the introduction of a legal foundation and institutional structure for share ownership and transfer and improved corporate governance.

Corporate Advisory: IFC's corporate advisory group conducted an appraisal of the Leninogorsk Gold Tailings Project for the Kazakhstani Government and supported a study on completing facilities and defining the marketing for three hotels under construction in Uzbekistan.

Further US-Russian and joint-venture projects are under discussion at IFC, with the largest in the pulp and paper sector. IFC is also in the final stages of creating a large regional investment fund as part of the G-7's Special Privatization and Restructuring Program. The fund will make equity and quasi-equity investments into start-up and privatized Russian enterprises that produce and distribute

goods in consumer and other markets where demand is substantial and supplies are limited. IFC has recently received additional joint-venture proposals. Nonetheless, joint-venture investment opportunities remain limited as a result of the difficult investment climate in Russia.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) was created March 28, 1991. Its purpose is to foster the transition toward market-oriented economies and to promote private and entrepreneurial initiatives in central Europe and the former Soviet Union. Countries receiving EBRD assistance must be committed to and applying the principles of multi-party democracy, the rule of law, respect for human rights and market economies. The EBRD, has 59 members, of which 25 are borrowing members, including all of the NIS. The U.S. contribution is \$350 million of which we have paid \$281 million through FY1995.

The EBRD is developing market economies by strengthening financial institutions, promoting privatization, developing the local private sector, and creating a modern infrastructure. The EBRD's role is catalytic in that it encourages co-financing with private and public financial institutions, mobilizes domestic capital resources, and provides technical cooperation in pursuit of these objectives and to help make reforms sustainable.

The Bank directs at least 60 percent of operation (both lending and equity) to the private sector or enterprises shifting to private control. Remaining resources are to be lent for infrastructure projects that support private development, and for state-owned enterprises that operate competitively. The Bank also places great emphasis on projects that contribute to environmentally sound and sustainable development.

There has been a great deal of change at the EBRD over the past year. Since the arrival of its new President, Jacques de Larosiere, the Bank has conducted a thorough review of operational priorities, adopted a new organizational structure, and has reduced administrative costs. Management improvements include (1) a 1994 hiring freeze and a 9 percent reduction in budgeted positions; (2) a zero-growth budget for 1994 and 1995; and (3) elimination of first-class travel.

Through November 30, 1994, the Bank approved 233 projects worth \$6.4 billion. Equity investments accounted for \$1 billion; loans -- the other \$5.4 billion. Top beneficiaries (as of September 30) are: Russia (\$1.1 billion), Poland (\$920 million), Hungary (\$740), Czech Republic (\$422), Romania and the Slovak Republic (about \$290 each).

The Bank's reorganization has facilitated more rapid commitments and disbursements, and greater emphasis on private sector projects and equity activities:

For the year through September 30, 1994, disbursements were up to 71 percent over the same period in 1993.

In the first half of 1994, Board-approved projects in the private sector grew 63 percent.

For 1994, through November, approved equity projects doubled, while loans increased by only 32 percent.

The Bank also has targeted activities more evenly across countries, with plans to have at an operation in each country:

In the first half of the year, the thirteen countries with the least amount of EBRD investment, saw their totals doubled.

In 1994, the Board approved the Bank's first projects in the Kyrgyz Republic, Macedonia, Croatia and Moldova.

And, the Bank responded to calls for more creative support for economic transition in the region, increased focused and adoption of programmatic approaches:

Targeting local level and small business initiatives;

Leveraging EBRD funds with private investment and government technical assistance;

Developing local financial infrastructures so that domestic institutions begin to furnish lending and investment to local firms.

In addition to traditional debt and equity financing and technical assistance, the EBRD has developed innovative mechanisms for channeling funds to the enterprise sector:

The Small and Medium Enterprise Fund (SME) in Russia facilitates lending and equity placements to small - and micro-businesses. The \$55 million fund is being implemented by local banks in five cities. Similar projects exist for Belarus, Ukraine, Kazakhstan and Uzbekistan.

The EBRD is working to implement the \$3 billion Special Privatization and Restructuring Program (SPRP) for Russia. The EBRD has approved four regional venture funds (with plans for seven more) which provide equity and TA to newly privatized firms. G-7 donor TA funds leverage \$30 million in EBRD equity for each fund.

The EBRD also administers the Nuclear Safety Account (NSA), an initiative of the Munich Summit. The NSA provides grant funds for immediate safety improvements of high-risk reactors and develops plans for early closure of those reactors. Projects have been initiated in Bulgaria and Lithuania, and are being developed in Russia and Ukraine. In this vein, the Bank is playing a lead role in development of the G-7 Action Plan for Ukraine to facilitate closure of the Chernobyl reactor.

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[END OF CONGRESSIONAL REPORT: U.S. ASSISTANCE AND RELATED
PROGRAMS FOR THE NEW INDEPENDENT STATES OF THE FORMER SOVIET UNION.
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